Promotion of Entrepreneurship and Innovation

“Shaping the Future through Innovation and Entrepreneurship in the Middle East and North Africa”

5th Regional Workshop of MENAinc
Bahrain, October 21, 2007
Ellen Olafsen, infoDev
The nature of **Innovation** is changing…

Not necessarily a technology break-through…

Old tech used in a different way…(M-PESA)

Much innovation happens in processes, services and business models…(Unilever)

The advantage of big R&D labs are eroding…

Innovation democratizing…it is becoming more accessible and more global…

Entrepreneurship

Real break-throughs require risk and the ability to absorb failure

It’s not a “rich” country phenomenon…necessity breeds entrepreneurship, so does productivity and competition…

Mindset + skills
“The well of human ingenuity is bottomless. Innovation strategies that tap into hitherto neglected intellectual capital and connect it better with financial capital can help both rich and poor countries prosper.”

HOW?
Social and Economic Wealth Creation

Markets
Human ingenuity
Skills
Innovation
The Incubator Initiative

- Started in 2002 with funding from Japan
- Premise:
  - SMEs are key to social and economic development
  - Information and communication technologies represent a key opportunity for developing countries
    - Businesses across sectors benefit from ICT – customer and supplier linkages, productivity, “know-how” + “know-who”
    - ICT opens up new business opportunities that often require few assets and lower start-up costs – “knowledge-based business” i.e. software programming, call centers, business process outsourcing, etc.
- Focus:
  - Financing and technical assistance for start-up, capacity building and expansion of incubators focused on ICT-enabled entrepreneurship
A growing global network:
80+ incubators
50+ countries
3000+ entrepreneurs

Regional Networks in:
Africa, Asia, Eastern Europe & Central Asia, Latin America & Caribbean, Middle East & North Africa

First ever global assessment of incubator impact:
• Incubators in 43 countries surveyed
What is business incubation?

Business incubation is about nurturing start-up enterprises to grow and become sustainable competitive companies.

Incubation intends to:
• Increase commercialization of ideas
• Encourage business start-up by reducing the risk and cost of starting a new business
• Increase the survival rate and competitiveness of promising start-ups by building capacity and networks
Core Components of Incubation

**Infrastructure:** Office space, electricity, telecommunications, Internet, lab facilities, etc.

**Business Services:** Registration, licenses, accounting, strategy advice, market research, export facilitation, etc.

**Financing:** Brokering financial services and/or providing them i.e. equity, credit, guarantees, etc.

**“People Connectivity”:**
Mentoring, coaching and interaction with fellow entrepreneurs (a micro cluster).

- **Economies of scale** decreases the cost of starting a business
- **Help with non-core business activities** saves time and money
- **Leveraging the credibility of the incubator & the portfolio of entrepreneurs** to overcome financing gaps
- **Learning, exchange of ideas, partnerships, business relationships, psychological support**
The Impact of Incubation

• SMEs nr. and survival rate – 85%
• Jobs
• Tax revenues and export earnings
• Commercialization of innovation with social and economic impact

Examples:
• Jordan: USD 500 to create one new job
• Romania: 30 clients paid USD 150,000 in taxes
• Brazil: 28 incubatees created 765 jobs

Estimate of new jobs created by clients, in total

- Clients’ businesses only
- Beyond clients’ businesses (i.e. in the local community)

<table>
<thead>
<tr>
<th>Clients’ Businesses Only</th>
<th>Beyond Clients’ Businesses (i.e. in the local community)</th>
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<tbody>
<tr>
<td>None</td>
<td>2.7% 2.9%</td>
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<tr>
<td>1 to 10</td>
<td>5.4% 5.7%</td>
</tr>
<tr>
<td>11 to 25</td>
<td>8.1% 11.4%</td>
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<tr>
<td>26 to 50</td>
<td>8.1% 2.9%</td>
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<tr>
<td>51 to 100</td>
<td>2.9% 13.5%</td>
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<tr>
<td>101 to 250</td>
<td>8.6% 16.2%</td>
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<tr>
<td>251 to 1000</td>
<td>8.1% 5.7%</td>
</tr>
<tr>
<td>&gt; 1000</td>
<td>18.9% 14.3%</td>
</tr>
<tr>
<td>Don’t know/can’t say</td>
<td>18.9% 45.7%</td>
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</tbody>
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Innovations commercialized by infoDev incubators

- Cost-effective ATMs to enable secure access to cash in environments where this has never been possible (India)
- A UV light to make river water drinkable by using solar electricity (Ecuador)
- Software designed to enable financial institutions to better evaluate and reduce the risk associated with lending and microfinance institutions (Mexico)
- A hepatitis C vaccine which will be brought to market in 2006. This company is now listed on the NYSE with a capital base of $19mm (China)
- Software acquired by Synopsis, a large French company
Disadvantaged Populations reached by infoDev incubators

Women in China:
- Rapid economic development, but high unemployment, especially among women
- Hedong District is an old industrial district of Tianjin with a high level of laid-off women workers from state factories and government organizations
- TWBI aims to generate employment for these women through small-scale, low-tech and service-oriented start-ups
- More than 3000 jobs generated by incubator clients have been filled by women

Rural poor in Brazil:
- ITCP has advised and trained members of close to 80 cooperatives who have created more than 1200 jobs in marginalized communities.

Rural unemployed in Uganda:
- Uganda Industrial Research Institute (UIRI) develops rural businesses that affect people who were unemployed or earning marginal livings.
Incubators as “change agents”

Change in:

– Policy and regulations (i.e. involvement in innovation policy, lobbying for changes in regulation pertaining to use or import of technologies, etc.)
– Financing practices (including creation of new funds for SMEs)
– Entrepreneurship culture

The return on investment in incubation must be measured over the long term
Incubators as change agents

Incubators can be a source of:

- Information for policymakers on barriers to entrepreneurship and SME growth
- Potential lower risk investment opportunities for Banks and financiers
- Innovative ideas for larger companies
- Clients for technology parks
- An environment for professors and graduates to start a business
Impact: Leverage Branding

- Our infoDEV grant helps us leverage funding from other sources.
  - 71.7% increase
  - 28.3% decrease

- Our infoDEV grant raises our credibility with the business community.
  - 80.9% increase
  - 19.1% decrease

- Our infoDEV grant raises our credibility with government and policymakers.
  - 89.4% increase
  - 10.6% decrease

**Self-reported Ranges of Funds Leveraged due to infoDev Grant (by source)**
- Government - $1,700 - $850,000
- NGOs / Civil Society Organizations - $3,700 – $20,000
- Foundations - $40,000 - $488,000
- Development Banks - $47,000 - $230,000
- Private Investment - $1,200 - $352,000
Profile of Ideal Incubator Manager

- "Visionary"
- Private Sector Experience
- Empathic and Empowering Approach
- Skills in planning, management, and assessment
- "A People Person"
- Communication Skills
- Experience attracting/structuring funding
- Commitment and drive
- For "social" incubators, community engagement and change skills

Challenge: Local Capacity

93% have difficulties finding, training, and keeping staff for the incubator

We do not have any challenges finding, training, and keeping staff.
Challenge: Access to Market Information

87% say information on research from R&D projects, institutes and universities is not readily available
Challenge: Business Environment (formal)

80% banking products for SMEs are not readily available

Percentage of grantees who agreed that these assets were present in their business environment

- Banking products for SMEs: 20%
- Private investment for SMEs: 15%
- Trade laws that support SMEs: 11%
- Regulatory, legal and/or policy incentives for new businesses: 17%
- Trade laws that support SMEs: 39%
- IP laws that facilitate entrepreneurial activity: 24%
Challenge: Business Environment (informal)

- Formal and informal networks to foster entrepreneurial activity: 22%
- Formal and informal networks for generating and developing ideas: 15%
- Risk tolerance/tolerance for failure: 15%
- Social tolerance: 28%

85% said there is little tolerance for risk or failure

Percentage of grantees who agreed that these assets were present in their business environment
Social and economic impact has been proven, but challenges remain…
Incubation Business Models

Focused on one sector i.e. information technology
What works best?

…it depends…but

…Local adaptation is crucial:

• What are your primary objectives? -and make sure your stakeholders agree…
  – Commercializing ideas?
  – Generating employment?
  – Empowering the poor?
  – Spurring innovation?
  – Creating export revenues?
  – Getting students to create their own business?
  – In what sector?

• What is the market size? Their purchasing power? (what can you charge for?)

• What are the government regulations and incentives?

• What financing options do you have? What financing options are there for your entrepreneurs?

• What capabilities do you have? Are there organizations you could partner with?

…The incubator itself needs to adopt an entrepreneurial mindset and approach…assess – start – focus - adjust
Leadership

• A key to success is leadership with an entrepreneurial mindset
• Preferably the manager of the incubator has experience in starting, running a business – hopefully also in failing..
• Where it is difficult to identify such managers, introduce entrepreneurial mentality through board members/mentors/advisors
• Stakeholders must allow incubator management the necessary flexibility to be entrepreneurial…
Partnership

• Promotion of innovation and entrepreneurship is a partnership effort
• Incubators cannot do it on their own, but they are an important player in the innovation ecosystem
• Leadership is required at all levels – government, financial institutions, academic, incubators, private sector
• All benefit from a strong, innovative, thriving small business sector
• It is about leadership – not only in the incubator, but across the board
2nd Global Forum on Business Incubation
Empowering economies through ICT-enabled innovation and entrepreneurship

- 26 November, Hyderabad, India

The 2nd Global Forum on Business Incubation: Empowering Economies through ICT, "gathered organizations from around the globe to focus on how the combination of ICT, innovation and competitiveness and wealth creation in developing

participants from

informally

networks of

promote ICT-
Thank You!

Ellen Olafsen
infoDev
eolafsen@worldbank.org