

- investors/entrepreneurs seeking to make new equity investments can be **leveraged as mentors**
- businesses seeking future clients can provide **discounted** professional services
- a **strong manager** who monitors both mentors and companies is key
- use managers who have **entrepreneurial experience** and can ‘relate’
- incubation programs can remain lean and **cost effective** with few employees (2)
- ensuring tenants **pay for services** screens out those that are not somewhat commercialized
- incubators create a **climate of collaboration** & networking from the start

### 3. What Challenges do SMEs face?

Small and Medium sized businesses across Africa face many and varied challenges to their growth and operations. Incubation projects are designed to address the following challenges, which are particularly acute for ICT enterprises:

- Appropriate office space
- Appropriate support services
- Professional networking

#### Appropriate office space

**Poor electrical & water:** SMEs need first and foremost an appropriate infrastructure in a building. This consists of dependable and redundant power supply, appropriate electrical installation, power conditioning for sensitive equipment, and water. This is rarely available in the cheaper office rentals that most start-ups and small enterprises can afford.

**Expensive Internet:** ICT SMEs need good and low cost connectivity to the internet backbone; preferably a fibre optic connection that has less interference or latency than a wireless/satellite link. Most SMEs need to arrange their own wireless or DSL data links which prove to be less reliable and more expensive than if they could pool resources and demand and push for wholesale pricing on bulk connectivity options.

**Inflexible lease terms:** leases can often be paid as much as three years in advance and do not provide flexibility in terms of changing the terms of the lease, or expanding or contracting into additional space as the company grows or contracts.

**Individual Resources:** companies generally have to provide their own resources, like generators, receptionists, security, kitchens, water tanks, internet connections as they cannot rely on other building tenants for maintaining shared resources. An ICT SME is going to be much more vulnerable to downtime than other SMEs – it’s like a factory, no power, no income. ICT service industries supporting global customers need a 99% uptime. Building your own infrastructure and environment in an older building is expensive to setup, and expensive to maintain.

**Unattractive locations:** SMEs will often locate in the cheapest real estate available and this can project a negative image to potential customers – often taking a garage or floor of a house, or locating in a crowded market area. Image is important for an aspiring SME trying

to establish its credibility, especially one that has just a few employees and is seeking to get service contracts from larger corporations.

### Appropriate support services

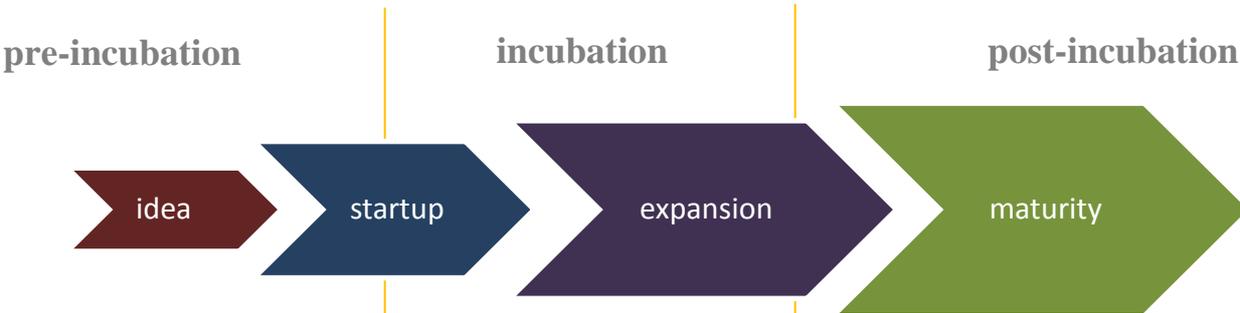
Most SMEs are launched by aspiring entrepreneurs who have had no previous experience, possibly even little exposure to a mature corporate environment. The enterprises are not planned appropriately, markets are not assessed, products not commercialized, marketing not adequate or imaginative, and good corporate governance frequently lacking. There is a crisis across Africa due to the nature of a tight labour market and few good opportunities for employment for the annual graduating students where they can watch and learn best practices. Business Plan competitions encourage individuals, understandably but regrettably, to embark on their own projects. They have little access to financial products and services, little training in project management and scheduling, and are unaware of basic business practices like feasibility studies. Worse still, they are unaware of the people, networks and support programs that do exist that could be of assistance.

### Appropriate Professional Networking

Key to the development of an entrepreneur is their exposure to other professionals. This can be in the form of good employment opportunities that reinforce best practices in business management. But it is frequently a mentoring relationship that exists between an accomplished professional and a bright, ambitious younger person; sharing ideas, techniques, visions, or criticisms. These relationships can frequently develop into funding opportunities, business contracts, or even employment. Whereas this form of industry networking and lobbying is well developed in Europe and the United States, it appears inadequate in Africa, and can be possibly linked to the size of some markets and thus increased competition, rivalry and mistrust.

## 4. Understanding the models

Understanding incubators you must understand the startup cycle of a business.



The cycles of business can be directly related to the types of interventions that SME developers can participate in. For purposes of clarity, we have defined three types of interventions:

<b>Germinate</b>	This is the very earliest stage of intervention, where you are	Ideas
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