

The Model in Summary

Business Incubation has been a highly successful economic development strategy embraced by organizers of all kinds throughout the world. The World Bank's infoDev organization is a major player in this movement, having supported over 150 incubators in 70 countries. The effort by infoDev to establish a group of sustainable and replicable incubators in Africa focused on Tanzania and Senegal in addition to South Africa as locations for potential ICT (information and communications technology) incubators that would assist technology entrepreneurs in developing successful companies supporting this industry. ICT companies serve virtually every sector of the economy in African countries including government, medical, agriculture, tourism, education, entertainment and banking.

The Team recognized that in order to have a successful incubator, certain environmental aspects of incubation need to be in place as well, e.g., reliable, high speed Internet connectivity, a supportive banking and finance community, adequate numbers of service providers who can work with the entrepreneurs, and real estate that can be developed, renovated or acquired. The Team was assigned the task of studying five "good practice models" that were deemed successful incubation programs to determine if there were specific practices that could be incorporated into the model for sustainable and replicable ICT incubators in Africa. Thus, incubators in Jordan, Armenia, Colombia, Chile and South Africa were visited and interviews conducted. Implications considered important from the African perspective were then identified and incorporated into the model.

The importance of finance to young technology companies cannot be overstated, and a separate element in this study was to develop a workable finance model to serve the clients. That model is also summarized below.

The Team confirmed that, as is the case with most incubation programs, the following are the primary economic drivers in developing the sustainable, replicable model:

- Real estate is the primary cost driver – in almost every case the incubation will require assistance in some form, be it through government grants, private investment, or donations.
- Corporate sponsors will play an important role – the ICT companies that will benefit from the work done by the incubator's client companies should be involved as stakeholders and can be very helpful in providing training and equipment as means of in-kind support.
- Brand identity is especially important to the client companies as the incubator gives them credibility in seeking customers.
- Incubator client companies typically require ongoing support from the incubator organization in terms of marketing and sales, accounting, legal assistance and mentoring/counseling.

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- Because of they recognize the value of the services that exist in incubators and they come to rely on the incubator's internal network, graduation is often not a priority for ICT incubator clients.
- Most incubator client companies will not be commercializing technology from a university, although the role of local universities as partners in each of the "Five Good Practice Incubators" was significant in all but one case. Moreover, most client incubator companies will not require assistance with intellectual property protection, either.

The incubator will become a safe, stable, and secure location to establish ICT business; create employment; promote development of a free market system; enable access to equipment and training; and become a focal point of entrepreneurial activity in the service area.

Economic impact of the ICT incubator must be measured in order to justify its contribution to the economy. This will most likely be done by tracking employment creation by the incubator companies (both direct and indirect); tracking aggregate client company turnover growth of the current resident companies and the graduates; and some measure of the ratio of annual investment to aggregate annual income generated.

The financial model example assumes that two types of financing should be provided through the incubator: short term debt made available through a partner bank, and longer term risk capital which could be provided to qualifying incubator clients and graduates through a venture capital firm partially capitalized by IFC. One extraordinary aspect of the IFC venture fund would be that the Fund, run by a professional investment firm, would provide an annual technical assistance payment to each incubator in the system. The purpose of this financial support would be to cover the costs of consulting assistance to both managers and tenants in the incubators. The investment of said technical assistance funds would be subtracted from the IFC's payout when the venture fund is liquidated.

In terms of a facility, it is anticipated that:

- The incubator would be managed by a small staff of 3-6,
- Serve about 20-30 clients (possibly some virtual clients as well),
- The facility would be about 1,500 to 2,000 square meters in size (although it is likely to be smaller), and,
- The incubator would require about ten years to achieve financial sustainability.

Finally, if a group of incubators was constructed and operated as a network, a cashflow-positive situation could eventually be achieved. This means that instead of what has typically been the case, (single, under-capitalized incubators are established without the resources to survive) a network of incubators is developed with consistent operating policies, well trained management, access to capital and professional advisors, the chances of success will be much greater, and the impact significantly higher.

In summary, the sustainable, replicable ICT incubators would have a role for both public and private sectors, require patient (long term) financing to be made available to the tenants, employ a trained manager with a capable staff, service providers and supportive stakeholders. Follow-on opportunities for graduating companies should be considered an integral part of the entire business plan so that eventually, a process for starting, growing, and graduating companies becomes a standard model for the program.

Next steps in the process include:

- Briefing the results of this study to appropriate decision makers in infoDev and IFC
- Selecting countries for establishing incubation programs
- Examining the specific target countries to ensure they have all or most of the requisite programs, real estate, and people and preparing a feasibility study and business plan for each.