

October 9, 2008

Introduction

Good afternoon

It is my privilege to address this regional conference of the ECA network of business incubators and technology parks.

As an initiator of the ECA network – now called ECAbit – infoDev has followed the evolution of ECAbit from an informal gathering of a few business incubation managers to a network that now has more than 30 member organizations in 18 ECA countries, reaching more than 2600 small enterprises.

infoDev is therefore proud to be a continuing sponsor of ECAbit, and we are fully committed to supporting ECAbit in reaching its objectives going forward.

Before sharing a few words on the topic of innovation and SME development in small towns and rural areas, I would like to thank our partners in this event, namely:

- The Ministry for Economic Development of the Russian Federation
- The Administration of Tambov Oblast
- VTB Bank 24
- The Tambov Innovation Incubator
- And especially Olga Lapteva, who really has put in a tremendous effort to make this event happen.
- Last but not least – I would like to thank Todor Yalamov and the ARC Fund for taking on the stewardship of ECAbit, following the great progress made by Andriey Tarelin of Kharkov, Ukraine.

Thank you all for your support. Again, my sincere apologies for not being able to make it to Russia at this time. I do hope, however, that during the course of the next few days you will

see opportunities for continued partnership with ECAbit and infoDev in the ECA region, and I would be delighted to visit Russia at a later time to discuss this potential.

About infoDev

For those of you who are new to infoDev, let me take a moment to tell you more about our program. infoDev implements programs and projects to utilize information and communications technologies or ICTs for development. infoDev's work is funded by the World Bank as well as by several donor countries. infoDev's work is centered around three themes: Enhancing Access to ICTs in developing countries, fostering the use of ICTs in key sectors such as Education and Rural Development and finally, enhancing Innovation & Entrepreneurship in developing countries. In each of these areas, infoDev strives to create analytical knowledge products and to support communities of best practice.

About infoDev's Business Incubator Initiative

In 2002, infoDev launched its Business Incubator Initiative to foster ICT-enabled entrepreneurship and innovation among business incubators and the development of small and medium sized enterprises as engines for socio-economic growth.

With support from the World Bank, as well as the governments of Japan, Finland and India, infoDev has created a global network of business incubators that spans 130 business incubators across 70 developing countries. We serve this network through a variety of means:

- **Start-up support** for new business incubators, particularly in countries where few or none exist
- **Capacity building** for business incubator managers in the form of training seminars, workshops and our online toolkit at idisc.net
 - idisc.net currently receives more than 7000 unique visitors per month and is thus a great place to learn more about what is happening in business incubation around the world

- **Regional networks** – such as Ecabit – also exist in the other regions – and offer a powerful means through which stakeholders in the innovation and entrepreneurship eco-system can share knowledge and form partnerships
- **Global communities of practice** have just been started on women entrepreneurship, youth entrepreneurship and ICT enterprise development. These groups work across national and regional borders to derive good practices, lessons and models that can be shared across the globe
- **The Global Forum** is a bi-annual event that gathers hundreds of people engaged in business incubation and small enterprise development worldwide. Our next Global Forum will be held in Brazil from May 11-15. The event is sponsored by the government of Brazil, which recently joined infoDev's group of donors. More information on the event will be posted on idisc.net shortly, and you are all cordially invited to attend.

Over the past 6 years of working in this field, infoDev has gained tremendous insight into business incubation issues. I will highlight a few of them, specifically as it relates to lessons that may be helpful to economic development in smaller towns and rural areas.

First some context:

In Eastern Europe and Central Asia GDP per capita continued to increase at rates of more than 6 percent over 1999 – 2006 which drove up living standards and reduced poverty. The efficiency of labor and capital rose rapidly in the Region, especially in the middle-income countries of the Former Soviet Union. As a result, the Region's income per capita, in constant PPP dollars, rose from US\$5,592 in 1998 to US\$8,605 in 2006, lifting 50 million people out of poverty within a population of nearly 460 million.

Structural reforms in most countries have driven ECA's ongoing success. According to the [2008 Doing Business report](#), ECA countries are reforming the most rapidly, surpassing even East Asia on the ease of doing business, and four ECA countries (Croatia, Macedonia, Georgia, and Bulgaria) were among the top 10 performers worldwide.

Despite strong growth, ECA countries still face significant challenges, including large sub-national disparities and persistent youth unemployment. The lack of job prospects and lower living standards in certain geographic regions in turn trigger migration to large cities. The result is that these so-called mega cities are becoming overcrowded, while smaller cities and rural areas are left with few resources to support its remaining population.

How can we use business incubation to create economic opportunities, facilitate the start-up of businesses and create jobs – not just in the capital cities, but in smaller towns and rural areas?

As you know, a business incubator focuses on nurturing growth-oriented start-up enterprises through provision of shared infrastructure, business services, access to finance and mentoring.

There are good examples of business incubators in infoDev's network that have had success in helping such enterprises grow and mature in smaller towns and rural areas.

For example, in Brazil – which suffers from one of the largest domestic income disparities in the world – ITCP pioneered a new social incubation model as a mechanism for increasing employment, income and self-esteem. Focused on cultivating “popular cooperatives” – collectively owned and operated SMEs -- it was a radical departure from Brazil's traditional incubation movement, which worked towards commercializing new technologies and creating opportunities for university-trained entrepreneurs.

The primary barriers confronting new entrepreneurs in the poor communities around Rio de Janeiro are arguably the human capital challenges in the local population. They manifest primarily as low levels of education, management skills and formal entrepreneurial experience.

After years of refining the model, ITCP targets cooperatives that “need an upgrade” and have already demonstrated some clarity around the business idea and some capacity for collective action. In the last ten years, the industry focus of client cooperatives has ranged from jewelry design to recycling services to ICT support.

ITCP first provides business training and consulting services, primarily in marketing, accounting, and cooperative management. This is referred to as pre-incubation.

For clients who demonstrate commitment and capacity in the pre-incubation phase, an incubation phase follows, which typically lasts about three years. Described as a “remote incubation” model, services are delivered both on-site at ITCP facilities and in cooperatives’ own communities, in order to minimize the client cost and logistical burden.

Since its founding in 1995, ITCP has advised and trained members of close to 80 cooperatives, who have created more than 1200 new jobs in marginalized communities around Rio de Janeiro. The model has now been replicated in 20 districts in Brazil, and is showing very promising results.

In 2007, ITCP was awarded as the Best Program of Incubation for Local Development by the Brazilian federal government and national business incubator association.

In Viet Nam, the CRC incubator based at Hanoi University is focused primarily at opportunities in the ICT sector. After creating a successful business incubator at the University, the incubation management team started setting up 64 satellite ICT centers in 64 disadvantaged areas throughout Viet Nam. The centers provide clients with training in computers and basic applications, and are connected to the Hanoi business incubator through high speed internet connections so that the business incubator staff can provide other business services virtually. Today, only two years after launch, 15 of the ICT centers are already breaking even financially.

infoDev has video case studies of both of these cases. Perhaps you will have the opportunity to take a look at them during the workshop. Otherwise they are also available on our website.

There are several lessons that can be drawn from examples such as these. I would like to emphasize two critical success factors:

1. What competitive advantage does the area have? What markets can feasibly be targeted? The initiator of an incubator must carefully scan potential growth sectors and areas where the region has some competitive advantage whether it be in the form of a natural resource, a particular skill set, etc.
2. Who are the potential entrepreneurs? What are the signs of entrepreneurial activity? What is the volume? In the landscape of entrepreneurs there are “necessity entrepreneurs” and “opportunity entrepreneurs.” Business incubation targets the

latter; it is a means to support enterprises that can have large economic ripple effects. But within the group of “opportunity entrepreneurs” you have “wish-to-be-entrepreneurs” and those who truly have what it takes to make a successful enterprise. This means that as you take a look at the potential market for your business incubator, it is necessary to have a significant number of potential entrepreneurs to draw from – at best 10 percent of them will likely be good candidates for business incubation. The effect of this is that the population in small towns and rural areas is often too small for a business incubator to be effective and sustainable. Some incubators have overcome this challenge by setting up satellite business incubation which combines a physical business incubator with remote assistance to various smaller locales. In our network, there is a business incubator in South Africa that has good experience with this set-up. The benefit of this is the larger scale that can be achieved, making the business incubator a more attractive proposition to partners whether it be corporate or public sector organizations.

There are other examples as well:

- ICRISAT in India is benefiting farmers in rural areas by investing in new crop technology to understand what grows best in the local soil and climate conditions
- In Rwanda the incubator is incubating small firms with local innovations that have great benefits in low income areas. For example a more energy efficient cooking stove. In Armenia, the incubator has incubated a firm that has created a hail protector. This because crops regularly gets ruined by hail in the country.
- In Chennai, India, TeNet has incubated business process outsourcing firms that have set up simple data entry facilities in rural areas, employing semi-skilled workers.

These are examples where the incubator is not placed in a rural area, however, it benefits rural populations by helping to increase productivity and incomes, save money or protect them from losses.

In summary, I firmly believe that business incubators can play a role in local economic development, and I would encourage you to use the experience of our global network of business incubators to learn from other examples around the world.

I hope that this conference will yield great results. Please don't hesitate to let me know how infoDev can continue to be responsive to your needs. Let me close with a word of sincere thanks to Russia, Tambov and - Olga Lapteva of the Tambov Business Incubator in particular - for your strong support and hard work to organize this meeting.

I would be happy to take any questions you may have.