



STEP Research Series

- No. 6 -

**LESSONS FOR SUPPORTING
BUSINESS INCUBATORS IN MALAWI**

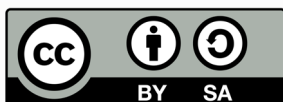
STEP Research Series - No. 6

LESSONS FOR SUPPORTING BUSINESS INCUBATORS IN MALAWI

Lessons for Supporting Business Incubators in Malawi.

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Abbreviations and Acronyms

AgBIT	Agribusiness Incubation Trust (of Zambia)
BBIN	Burundi Business Incubator
BDS	Business Development Service
BeeBiz	Beehive Centre for Social Enterprise
CAADP	Comprehensive African Agriculture Development Programme
CBIIC	Chandaria Business Innovation and Incubation Centre
CIDB	Construction Industry Development Board
DEMATT	Development of Malawian Traders Trust
GIZ	German International Development
HIT	Harare Institute of Technology
ICT	Information, Communication and Technology
JKUAT	Jomo Kenyatta University of Agriculture and Technology
KIRDI	Kenya Industrial Research and Development Institute
KPI	Key performance indicators
MEDI	Medium Enterprise Development Institute
NEPAD	New Partnership for Africa's Development
SABTI	South African Business and Technology Incubator
SCI	SEDA Construction Business Incubator
SEDA	Small Enterprise Development Agency
SEDOM	Small Enterprise Development Organization of Malawi
SME	Small and Medium-sized Enterprises
SMEDI	Small and Medium Enterprises Development Institute
SMMEs	Small, Medium and Micro-Enterprises
TVET	Technical and Vocational Educational Training
UniBRAIN	Universities, Business and Research in Agricultural Innovation
UNICEF	United Nations Children Education Fund

1. Introduction

1.1 Incubators

A business incubator is a physical location or virtual location that provides a defined set of services to individuals or small businesses. This may include specific types of office space, flexible lease terms, access to technology, financing and technical assistance (such as marketing, legal, finance, human resources and other business development services). Business incubators provide targeted support services to early-stage small and medium-sized enterprises (SMEs). They are vital to the health of the SME sector particularly, since they focus on the root causes of early-stage business failures such as poor strategy and lack of access to finance. The three main aspects defining an incubator are:

- incubators focus on SMEs in the early stages of growth
- incubators offer services aimed at strengthening the capacity of SMEs to operate on their own
- incubation is temporary

SMEs in their early stages of growth (idea and pre-seed) have particular needs. Incubators recognize this and target their services to meet these needs so that SMEs can grow independently once the incubation ends. Incubators are mainly dependent on charging rent or membership fees to residents, often on a monthly basis (Dee et al., 2015). By charging rent rather than taking equity in the businesses they support, incubators are unlikely to assist rapidly growing businesses.

Figure 1: What is a business incubator?



1.2 Growth accelerators

Accelerators are a more recent phenomenon than incubators. In contrast to incubators, accelerators provide services that are highly selective, cohort-based but of limited duration (usually 3–12 months). Services often include assistance in developing business plans, investor pitch desk, prototypes and initial market testing. While incubators typically charge rent or membership fees, accelerators more often base their business model on equity from the start-ups. This means that they are more growth-driven, although exceptions of this business model do exist – especially corporate accelerators. In the accelerator model, some firms may choose to sponsor or subsidize such a programme for broader strategic reasons, including internal innovation, cultural change and marketing, corporate social responsibility or public relations (Miller & Bound, 2011).

Early accelerator programmes were mainly funded by venture capitalists, while newer programmes have been established by a wide variety of organizations, including large corporations and the public sector. These new players often have different missions, which in turn lead to differences in selection criteria, funding model and success metrics (Van Hove et al., 2015). However, the offer of seed funding is still a common characteristic of most – but not all – accelerator programmes.

Increasingly accelerators are providing support designed for more established and high-growth companies looking to scale up their businesses. Support at the pre-start-up stage is offered in the form of pre-accelerator programmes, directed at entrepreneurs or start-ups that have the aim of joining an accelerator programme in the future. For the purposes of this background report, we adopt the work of Miller & Bound (2011) and consider an accelerator as defined by the following characteristics:

- Fixed duration programmes (usually 3–12 months)
- Typically, growth based (payment via equity rather than fees)
- Often provide seed funding
- Focus on services over physical space
- Admission in cohorts
- Provision of start-up services (e.g. mentorship, entrepreneurial training)
- Highly selective

As with incubators, there are also ‘virtual variants’ that do not often offer physical space but aim to provide other services remotely. The overlapping features between incubators and accelerators are shown in figure 2.

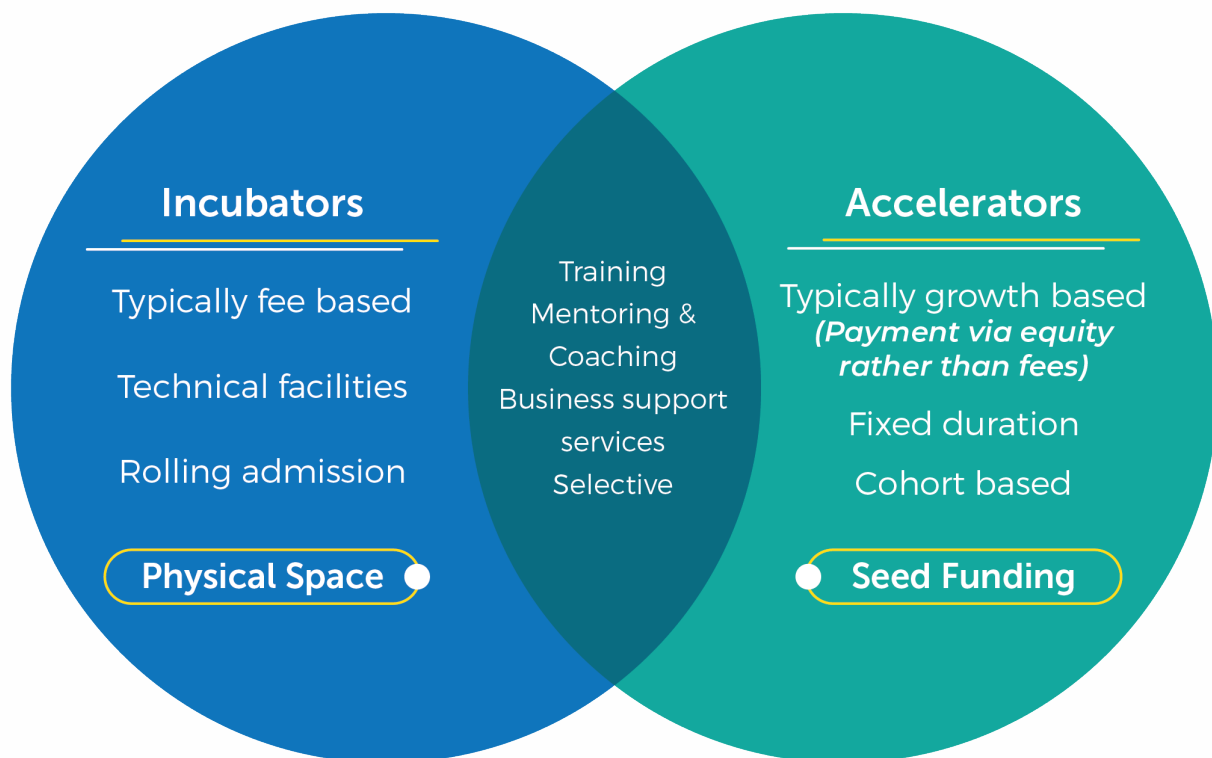


Figure 2: Features of incubators and accelerators

Source: Adapted from Dempwolf et al., 2014

1.3 Other business support services

In addition to the above, various other forms of business support exist (or existed) that aim at:

- improving the performance of enterprises
- their access to markets; their ability to compete
- raise profitability
- enhance growth of enterprises
- promote the value addition of goods and services

These include: one-stop shops, online business resource portals, SME support centres and the use of standardized training programmes, among others (Chrisman, 2010).

Other typology of SME support measures includes: information and referral; professional informational services; advisory services (e.g. business planning, mentoring); training on starting and growing a business; and networks (trade fairs) (WETF, 2009).

In Malawi three programmes were supporting SME development but merged into the Small and Medium Enterprise Development Institute (SMEDI) in 2013. The programmes were: (a) Development of Malawian Traders Trust (DEMATT) whose mandate was to train businesspersons, give technical support to small entrepreneurs (especially women) and to manage credit guarantee funds; (b) Small Enterprise Development Organization of Malawi (SEDOM); and (c) Medium Enterprise Development Institute (MEDI).

In addition to the above, entrepreneurship courses are often run by educational institutions ranging from Technical and Vocational Educational Training (TVET) institutions, higher educational institutions (universities) and others. These take a wide variety of forms, ranging from degree programmes, diploma and certificate programmes designed specifically for students, to developing an idea and creating individual businesses. Support services offered may include mentoring, seminars, training, networking opportunities, funding advice, and access to expertise.

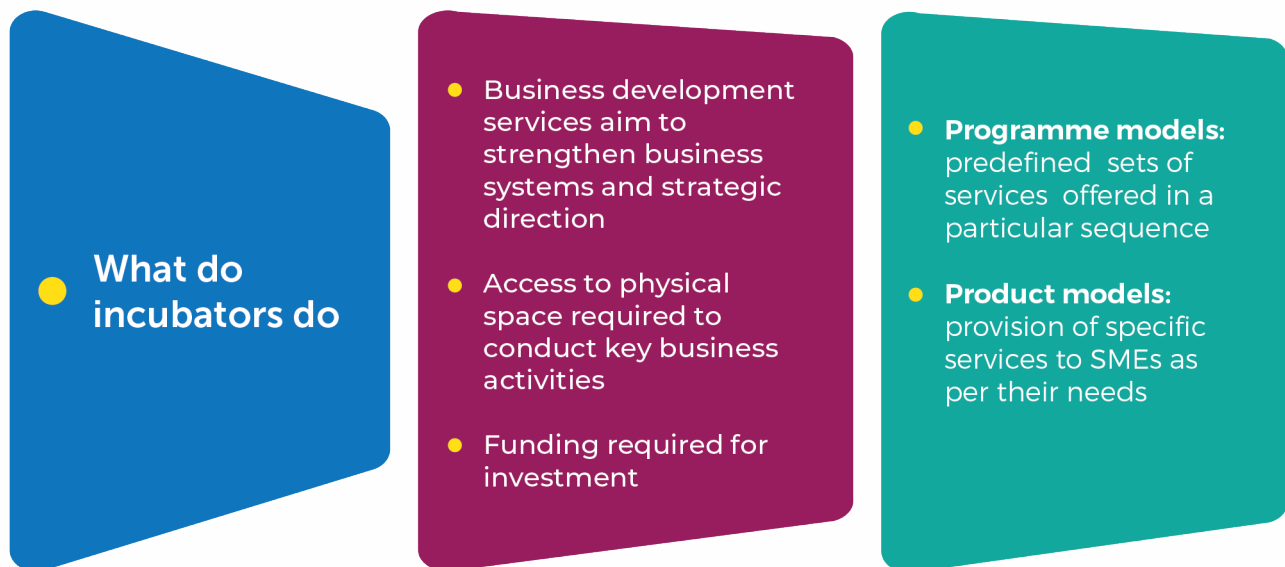
1.4 Why business incubation?

In this study, the focus is on business incubation as a means of providing targeted business support services to early-stage SMEs. Young companies are particularly vulnerable in their early/start-up years, particularly in Africa where there is a high percentage of inexperienced workers starting businesses. A lack of exposure to the formal sector's mature corporate governance (due to a widespread lack of employment opportunities) means that there is a significantly higher percentage of students or inexperienced entrepreneurs trying their luck at starting a business for survival. Furthermore, the start-up environment is considerably more hostile in countries like Malawi, where services remain inadequate, inaccessible or expensive.

Although the rates remain controversial, it is broadly accepted that incubation programmes can dramatically increase the survival rates of SMEs if they are well run and the start-ups pay for the services. This model (revenue generation) ensures a steady cash flow for the incubator; although it assumes that entrepreneurs will have the necessary cash flow to support an annual or monthly payment. In South Africa, up to 65 per cent success rate has been reported (World Bank, 2009). In addition, the provision of physical space and other critical interventions made by the incubator programmes such as management coaching, mentors who help in preparing effective business plans administration services, technical support, business networking, advice on intellectual property, and help in finding sources of financing significantly help these individuals.

However, an incubator can also become sustainable if government or a donor provides funding in the form of a grant. In this model, government or a donor subsidizes an incubator for broader strategic reasons, such as employment creation and poverty reduction. The programme targets a special group, such as youth and women, because they are underrepresented among business owners. The aim is not just to integrate these groups into the labour force but to improve their access to resources, skills and experience, opportunities and business networks. These incubator programmes also aim at supporting youth and women coming from less advantageous environments and who may not possess the basic educational competencies, business acumen or technological ability to prove competitive in a dynamic marketplace for micro and small enterprises. Additionally, limited assets and scant financial resources often make it very difficult for them to access start-up capital. In some cases, cultural impediments and weak social support impair these groups' ability to start a business. These public- or donor-funded incubator models support start-ups who have a workable idea but do not have funds to pay for the services required to overcome challenges and become successful entrepreneurs.

Figure 3: Role of incubators



The incubators' support is vital to the health of the SME sector and in reducing early-stage failure. Some of the key issues that incubators focus on are poor business strategies and lack of access to finance. Many SMEs are unable to access early-stage funding either because of their inability to meet the funding requirements or because they are unaware of the funding sources. In addition, many SMEs struggle to develop business strategies and systems that allow them to access markets and grow. Since SMEs account for 83 per cent of national employment (NSO, 2000) and incubators target the causes of SME failure, incubators are an important driver for economic growth and job creation. Small and medium-sized businesses in Malawi face many challenges to their growth and operations, therefore incubation programmes should be designed to address these challenges. Critical among them are:

Appropriate office space

Poor electricity and water supply: First and foremost, SMEs need suitable office space and sound infrastructure. This consists of a dependable power supply with appropriate, safe electrical installation. This is rarely available in the cheaper office rentals that most start-ups and small enterprises can afford.

Expensive internet: SMEs need good and low-cost connectivity to their internet, preferably fibre-optic cable connection that has less interference than wireless.

Inflexible lease terms: Leases often have to be paid as much as 6 to 12 months in advance and do not provide flexibility in terms of changing the lease, or expanding or contracting into additional space as the company changes.

Individual resources: Companies generally have to provide their own resources such as generators, receptionists, security, kitchens, internet connection as they cannot rely on other tenants for maintaining shared resources. The alternative (i.e. to building one's own infrastructure) is expensive to set up and maintain.

Unattractive location: SMEs often locate in the cheapest property available which may project a negative image to potential customers. Image is important especially for SMEs trying to establish themselves in a competitive market.

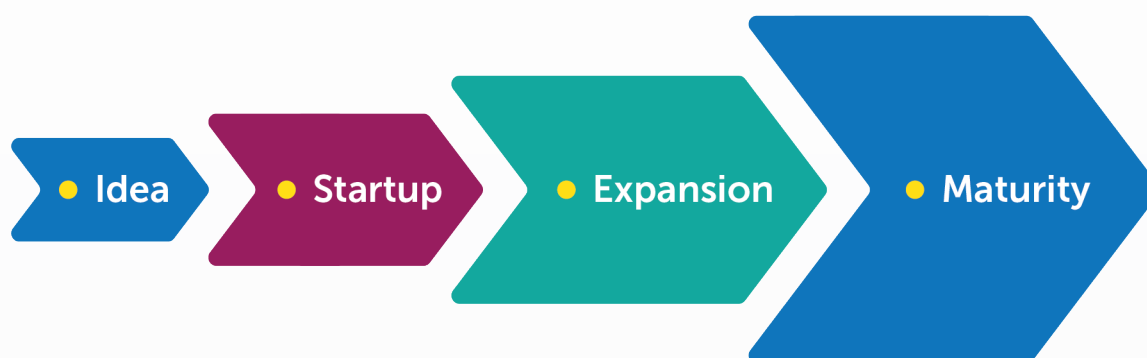
Appropriate support services: Most SMEs are launched by aspiring entrepreneurs who have no previous experience. The enterprises are not planned appropriately, markets are not assessed, products not commercialized, marketing not adequate or imaginative, and good corporate governance is frequently lacking. SMEs have little training in project management and scheduling. Worse still, they not aware of the people, networks and support programmes that could be of assistance.

Appropriate professional networking: Key to of an entrepreneur's development is their exposure to other professionals. This can be in the form of good employment opportunities that reinforce best practices in business management. They lack mentoring relationships that exist between accomplished professionals and younger entrepreneurs for sharing ideas, techniques, visions or criticisms. These relationships can also develop into funding opportunities, business contracts or even employment.

1.5 Incubator models

One needs to get a clear picture of the start-up business cycle to fully understand incubators, as shown in figure 4 below:

Figure 4: Start-up business cycle



The cycle of businesses can be directly related to the types of interventions that should be developed for SMEs.

Table 1: Business incubator models

Type	Description	Examples
Germinate Pre-incubation	This is the earliest stage of intervention where you are helping an individual with an idea. Some incubators can afford this kind of activity where they can access public support or private capital. This is often required in high-tech innovation industries and the incubator closely attached to a university	<ul style="list-style-type: none"> • Idea • Expensive and risky
Incubate Incubation	This is where an idea has graduated into a plan. Incubators can help refine the plan, build the team, provide resources and invest in the company. Also known as acceleration, this focuses on more mature start-ups	<ul style="list-style-type: none"> • Start-ups • Expensive part subsidized
Host Post-incubation	This is where a profitable company merely seeks a particular type of facility. No intervention is required by an incubator	<ul style="list-style-type: none"> • Mature • Safe

Table 2: Services offered by incubators

Type	Description	Examples
Business development services	Services aimed at strengthening the business acumen of entrepreneurs and the business systems and strategic focus of their enterprise	<ul style="list-style-type: none"> • Business strategy support • Systems support • Access to markets • Access to finance • Mentorship and networking
Provision of physical space and resources	The provision of space in which SMEs can conduct their operations Incubators offer various combination of basic office space, sector specific resources and meeting facilities	<ul style="list-style-type: none"> • Office space • Technical equipment and specialized facilities • Meeting facilities and conference rooms
Funding	The provision of actual financial capital to SMEs or the facilitation of access to financial resources	<ul style="list-style-type: none"> • Grants • Equity • Debt/loans

1.6 How do incubators vary?

There are many different types of incubators. They vary across several areas including how entrepreneurs choose to operate and generate revenue, their specific geographical focus and the SMEs they choose to target.

Table 3: How do incubators vary?

Variation	Description	Examples
Sector focus	The emphasis on or preference of SMEs from a particular economic sector	<ul style="list-style-type: none"> • Sector specific focus-provision of sector specific services and resources e.g. manufacturing, agriculture • Multi-sector provision of services to SMEs from a wide range of sectors
Geographical focus	Where the incubator offers the service	<ul style="list-style-type: none"> • SMEs across the country • SMEs in one region • SMEs in one district, town or city
Target group of SMEs	The subset of SMEs that the incubator hopes to offer its services to	<ul style="list-style-type: none"> • Vulnerable SMEs or enterprises from disadvantaged communities • SMEs that are probable winners and have proven business plans
Operational model	The way in which the incubator is structured and functions in order to achieve its purpose	<ul style="list-style-type: none"> • Virtual incubation model-remote provision of BDS either via the Internet or locations suitable to the SMEs • Brick and mortar model-provision of incubator services from a physical location • Mixed model-the provision of both physical resources and virtual services
Revenue-generating model	The system by which the incubator monetizes its services	<ul style="list-style-type: none"> • Fee for service model: charges fees for services on a monthly basis or as a percentage of revenue generated • Equity-swap model: take equity in an SME and don't charge monthly fees
Mix of public/private support	The combination of public, semi-public and private actors involved in establishing and operating the incubator	<ul style="list-style-type: none"> • Government-owned incubator • Incubator established in partnership between the private sector and the state • Incubator established and supported privately

Figure 5: How do incubators vary?

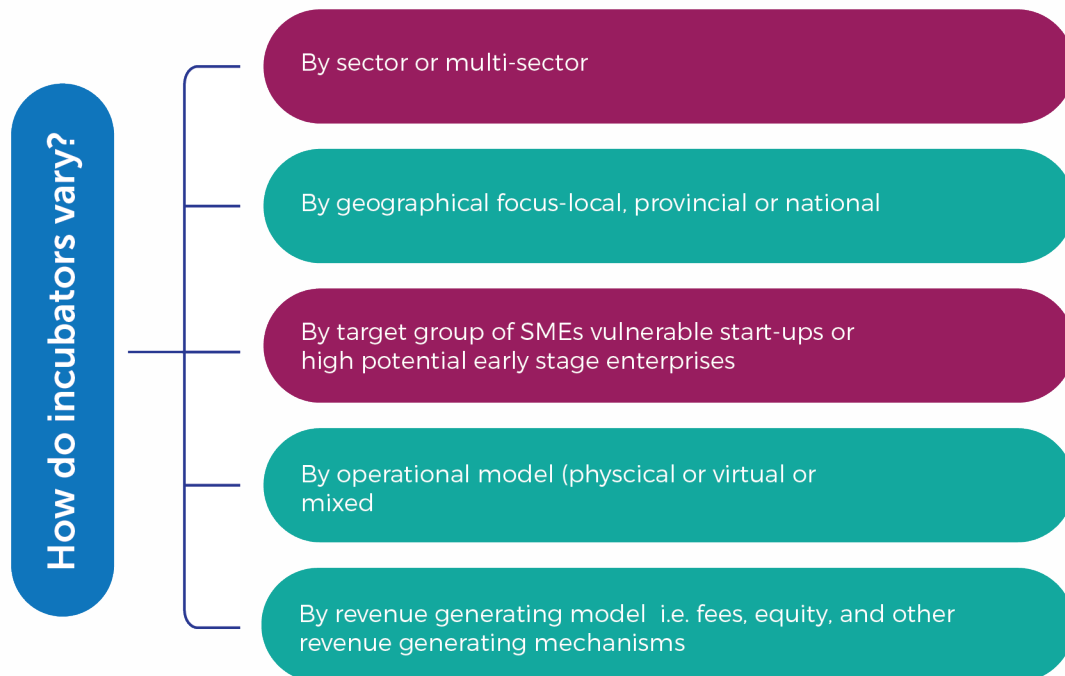


Table 4: How incubators deliver services

Type	Description	Example
Programme delivery model	<ul style="list-style-type: none"> • A predefined set of services, sequential in a particular way delivered to the SMEs • Programmes have multiple components, each with a specific goal • Components often build on one another • Intended to build SME competencies over time in a controlled way 	<ul style="list-style-type: none"> • An incubator has a business building programme for 18 months and is structured as follows • 6 months of weekly class-based financial literacy, marketing and human resource training • 12 months of mentoring and coaching sessions
Product delivery model	<ul style="list-style-type: none"> • SMEs can access specific products and services as needed • SMEs decide when to access services and in what order • If charged, SMEs pay based on how long and how extensively they use these services 	<ul style="list-style-type: none"> • An incubator offers the following services that SMEs can subscribe to • Financial literacy • Leadership and management skills • Networking skills • Computer skills • Confidence • Critical thinking skills • Planning and development skills • Life skills training

2. Examples of Business Incubators

This background research describes the existing landscape of business incubators in Malawi and the region. It explores the incubation types and their common features and sectoral focus. The report exemplifies business incubators on a number of crucial areas such as value proposition, the service offerings, their institutional mission, financing and business model. The report also examines public and private business incubators. There are also mixed-use business incubators that serve tenants and clients in a variety of industries and markets. A 'manufacturing' incubator caters for small and start-up manufacturing and assembly-oriented businesses. The other common type of business incubator in Malawi and the region is a 'technology' incubator or 'tech labs', which foster certain high-tech sectors and the growth of firms involved in emerging technologies.

Because business incubators are a recent phenomenon in Malawi, it can learn a lot from its neighbouring countries and the region, especially from South Africa and Kenya, which have more experience of them. One key lesson for Malawi is that before supporting business incubation, it is important to bear in mind that they are not just there to support struggling businesses by providing a livelihood for the owner. Rather, incubators focus on entrepreneurs whose businesses have started to grow, not merely survive. Malawi can also learn from its neighbouring countries which business models have worked and which ones have not. Most incubators in Africa – even in South Africa, which is regarded a well-developed economy – are partly funded by government with only a small proportion privately run.

2.1 Malawi

2.1.1 Innovation Hub

UNICEF Malawi, in partnership with the University of Malawi/Polytechnic, launched the Innovation Hub (Mphika wa Luso) in Blantyre. The Hub is based at Malawi Polytechnic's Chichiri Campus (University of Malawi). The Hub provides a platform for young people, industry stakeholders and academia to interact, exchange ideas and collaborate on innovations that address local challenges, and then take those innovations to scale.

The Hub provides a dynamic platform to scale up and sustain UNICEF's innovation efforts in Malawi and to nurture new game-changing solutions in UNICEF's areas of programming. Through collaborative engagement of youth, academia, government, private sector and development partners, the Hub serves as a vehicle to catalyse innovation within and outside UNICEF.

2.1.2 InCUBE8

InCube8 is a business incubator/accelerator founded in early 2016 with the aim of confronting the growing problem of youth unemployment and start-up failure. It does this by creating an ecosystem where innovative entrepreneurs may be nurtured and grow into the next generation of successful business leaders. The incubator received seed money amounting to US\$5,000 from Tony Elumelu Entrepreneurship Programme for developing a curriculum and building a workspace for the incubator.

The ecosystem is defined by some key events such as the monthly Pitch Nights hosted on the last Thursday of every month in both Lilongwe and Blantyre; the entrepreneurship conferences; network cocktails; and workshops hosted by Invest Malawi, which engage and help with personal and business growth.

InCUBE8 provides mentorship from an array of experienced and successful businessmen and women in various sectors. Technical support is provided through the 10-week programme, comprising weekly online tasks and weekly workshops. Networking opportunities are offered with local venture capital firms, banks, 'angel investors' and public funding organizations through industry nights, breakfast meetings and cocktail gatherings. InCube8 also provides no less than US\$1,000 seed capital to its members upon graduation from the programme.

In addition to the programme, InCube8 is in the process of establishing a business development centre called the CUBE where members and non-members will be able to rent co-working space. The CUBE will also provide business development services such as financial management consultations, business advisory/diagnosis services and business plan development (to name a few).

2.1.3 Mhub

Mhub is the country's first technology and innovation hub located in Lilongwe, with a working space in Blantyre. The hub is a social enterprise that champions the development of local technology solutions. It nurtures young innovators and entrepreneurs with technical and business skills to create sustainable business solutions.

The hub facilitates structured mentorship between young entrepreneurs and innovators with established experts, researchers and icons in technology and business. Mhub also aims to enhance knowledge-sharing between industry, academia, developers, researchers and the community to ensure the development of relevant technology solutions. Mhub also provides a co-working space for young innovators and entrepreneurs. The space is designed to promote creativity and stimulate innovative thinking. The hub provides an environment for upcoming start-ups to work and connect with potential clients; it affords an atmosphere conducive for interaction with other like-minded innovators and entrepreneurs, sharing ideas and networking. Mhub has trained over 4,000 youths with information and communication technology (ICT) skills and entrepreneurship; it incubates 15 emerging entrepreneurs; it has a membership base of 180 young innovators and entrepreneurs; and it has exposed over 52 entrepreneurs on the Lilongwe Pitch Night platform.

2.1.4 BeeBiz

BeeBiz is located in Blantyre District, Chilomoni Township, using 20 forty-foot containers adapted into an enterprise area of workshops, offices and classroom spaces. Budding entrepreneurs have easy access to electricity, water and the internet and are co-located with micro-loan operators and advisers. BeeBiz is a place to get businesses going, create jobs and job creators in a scalable, shareable system.

Beneficiaries include new entrepreneurs in poor urban areas in Malawi and the people they employ. As a non-profit organization, the Beehive Centre for Social Enterprise takes any surplus from BeeBiz to support women and children in a children's centre. This centre provides childcare for women who want to train and start businesses in BeeBiz. The majority of trainees in tailoring and design at the Beehive Centre for Social Enterprise are women.

2.1.5 Mzuzu Entrepreneur Hub

Mzuzu Entrepreneur Hub is an organization registered under the Company's Incorporation Act with the aim of providing office space and business incubation programmes. It also provides a platform for upcoming entrepreneurs to access information on investments, trade, banking, business registration, technology and other resources that can help them to grow their business ventures in the city of Mzuzu. The Mzuzu Entrepreneur Hub also runs Mzuzu Pitch Night which is a platform for entrepreneurs to present their businesses to potential customers, investors and partners.

2.1.6 Other initiatives

There are a number of other initiatives that are also planning to establish business incubators in Malawi using various models. The German aid donor, GIZ, together with NEPAD¹, is supporting a number of private technical colleges through the Malawian Ministry of Labour to establish a number of incubators. The aim is to design appropriate measures that will address the gaps in vocational and technical education within the agricultural investment plans under the Comprehensive African Agriculture Development Programme (CAADP).

The Small and Medium Enterprises Development Institute (SMEDI), with funding from the Indian Government, is planning to establish a business incubator in Mponela that focuses on value chains. Equipment will be imported from India and set up at SMEDI workshops. Trainers from India will come for about 3 months to train local instructors on the equipment and various production processes. The development support will also involve training managers on how to establish links with industry, and to set up a self-funding model for supporting its operations. The incubation centre will also provide business advice (business support services) to clients who want to start their business.

The Nkhotakota Youth Organization: Offers some vocational training skills in various trades plus courses in entrepreneurship. The young people are encouraged to start their own businesses after graduation. Strictly speaking this is not an incubation centre, but the model of teaching vocational skills and the entrepreneur course is similar to what all the TVET institutions are offering in Malawi.

2.2 Zambia

2.2.1 Agribusiness Incubation Trust (AgBIT)

Business incubation is not new concept in Zambia, dating back to the early 1990s when there was an endeavour to establish business incubators in all Zambian provinces. The major problem was that the project design, as it ended up, benefited few people. In fact, the first people who went into the incubation did not graduate from the programmes, and the majority of those who are still operating is in business premises provided by government.

¹ New Partnership for Africa's Development.

The most well-known incubation centre in Zambia is AgBIT (Agribusiness Incubation Trust of Zambia). AgBIT runs a 6–18 months incubation programme for entrepreneurs interested in processing mangoes, pineapples and tomatoes. The programme is tailored to accelerate the growth of small businesses into successful companies, which receive hands-on business training, expert advice, technology assistance, business facilities, business development support services, mentoring and networking, and facilitation of funding.

AgBIT is part of the Universities, Business and Research in Agricultural Innovation (UniBRAIN) project which is a joint initiative of the Forum of Agricultural Research in Africa and the Government of Denmark whose objective is to enable universities, business and agricultural research institutions to commercialize agricultural technologies and produce graduates with entrepreneurial and business skills. UniBRAIN supports the establishment of the Agribusiness Innovation Incubation Consortia, comprising members drawn from universities, businesses and agricultural research innovations. The Consortia are committed to creating jobs and wealth, generating commercial innovations and producing graduates with entrepreneurial and business skills through hands-on experience with agribusinesses.

Through its business incubation programme, AgBIT is supporting the rapid growth of small but high-potential enterprises (SMEs) and start-ups in the agribusiness sector, minimizing the risk of business failure in their formative years, and encouraging more innovation.

Anchored on the strength of its unique consortium, the AgBIT incubator takes leadership in the commercialization of available agribusiness technologies, by providing strong business mentorship to SMEs; linking smallholders to markets; strengthening the supply chain; and delivering quality business development services to SMEs and producers alike. AgBIT's business incubation goes beyond business training to providing key mentorship and client-tailored support to high-potential entrepreneurs and farmer cluster enterprises.

2.2.2 BongoHive

BongoHive was the first technology and innovation hub in Zambia. It was established as a social enterprise, contributing to local, social and economic development through skills development, professional networking and technological innovation. The aim is to unleash the untapped potential of young people who seek success while making a difference through their careers. BongoHive provides guidance and practical advice throughout the entire start-up process, which involves concept refinement and prototyping, post-launch operations and growth management. The organization offers two programmes, 'Discover' and 'Launch', which are focusing on identifying the best and brightest entrepreneurs in Zambia. BongoHive brings various entrepreneurs into their hub and turns their ideas and projects into scalable businesses.

2.3 Zimbabwe

2.3.1 Harare Institute of Technology (HIT)

Zimbabwe, has a number of initiatives which include the Harare Institute of Technology (HIT). It is a collaboration between the Embassy of India and the Government of Zimbabwe. HIT has been promoting the incubation concept in Zimbabwe, laying the foundation for entrepreneurial development. The institution's mandate is the development, incubation, transfer and commercialization of technology, as well as human capital, for greater national industrialization.

The Indo-Zim Technology Centre at HIT promotes technology transfer and also introduces new technology in various fields in support of SMEs. The centre offers training to SMEs in manufacturing tools and components. Such empowerment initiatives augur well for entrepreneurial development in the SME sector with the state's help. Other centres providing incubation facilities include Bulawayo Polytechnic, SMEDCO² and the Chitungwiza Common Facility Centre.

Equipment worth more than US\$3 million was imported from India, who also offered training to dozens of Zimbabweans in the fields of tool and die making, tool design and computer-controlled technology.

2.3.2 Other technology business incubators in Zimbabwe

Impact Hub, Harare

Impact Hub Harare is part of a global network of 'Impact Hubs' in different cities around the world. The hub brings together local innovators through events, an innovation lab and business incubator. Impact Hub offers credibility and a proven track record of start-up acceleration and nurturing entrepreneurs.

Stimulus Hub, Harare

Located in Harare, Stimulus Hub is a business incubator that provides business coaching and networking for entrepreneurs. Stimulus Hub also holds hackathons and a host of other tech start-up events.

2.4 South Africa

South Africa has at least 13 private, 27 SEDA incubators and 36 other incubators funded by the incubator support programme helping entrepreneurs in sectors as diverse as horticulture, construction, chemicals, ICT, metal fabrication and furniture manufacturing, among others. While there are a few private sector-led incubators, most are supported by the national government and, to a lesser extent, by the provincial and local governments. The South African Business and Technology Incubator Association (SABTI) was formed by incubator professionals and has since become an association representing incubators in South Africa. In this paper we review three of those incubators:

2.4.1 SEDA Construction Incubator

Established in 2006, SEDA Construction Incubator (SCI) is a public benefit organization mandated to develop and mentor nascent construction companies in South Africa. The core business of SCI is to develop emerging contractors through the infusion of both technical and business administration skills that are aligned with the introduction of technology in order to enhance the efficiency and management of their businesses.

The incubator aims at providing support to selected participants for a period of 3 years by which time each emerging contractor should have advanced by at least one financial level above their entry point on the Construction Industry Development Board (CIDB) register and be capable of operating unassisted in the open market. There is consensus among the majority of client bodies that the model offers a good strategy to assist emerging contractors. The level of formality the SCI model brings to the industry is also widely acknowledged and appreciated.

² Small and Medium Enterprise Development Corporation is a development finance institution which primarily exists to promote the development of micro, small and medium enterprises, and cooperatives in the country, through lending and capacity building.

SCI provides support in three phases of development of the emerging contractors: (a) tender phase support, (b) construction phase support, and (c) general administrative support. These three areas were identified as being the most critical in terms of the need for development and mentorship interventions. To date, under the current year in review, the SCI supports 338 construction companies in South Africa.

Mentorship programme

The mentorship model includes providing guidance to and facilitating the incubatees who are selected through clear criteria for inclusion into the programme, to achieve financial and operational efficiency, and success.

Mentorship stages

The program was developed around specific processes that can be found in any construction business:

- **Tender stage:** When the contractor wishes to acquire work in the form of contracts, the contracts need to be priced correctly, with clear profit margins and all expenses to be recoverable, thus ensuring a profitable business and clear financial formula for success.
- **Pre-construction:** After securing or being awarded the contract, there is a contractual period in which the contractor has to prepare for occupation or possession of the site.
- **Construction management:** Processes that are specifically the domain of the company directorship or management need to be properly and professionally managed. These necessary administrative functions are sometimes used as a measurement of capability by the attending professional consultant on the project. Correct, clear and concise understanding can ensure a pathway to recommendation for future and current projects.
- **Site supervision:** Interaction with the site foreman is essential in ensuring that the information and skill requirements are thoroughly understood by all role players in the transfer process. Stronger site supervision allows the contractor's management team a certain amount of independence and autonomy, thereby creating opportunities.

Training and development

SCI recognizes that from a business perspective, construction needs a range of services such as providing access to technology and to business development support services (e.g. venture capital). The technical training provided ensures that incubatees are sufficiently skilled to complete projects in the open market. The areas of training include the transfer of general skills in building, electrical engineering and civil engineering construction.

Outreach programme

The outreach programme is aimed at level 1 and 2 CIDB contractors. The programme was introduced 3 years ago and has resulted in more than eight contractors being supported. The idea is to introduce an outreach programme in all SCI branches.

Centre of excellence

There is a dedicated and committed team of staff who together make up the skills and services of the SCI. SCI prides itself in the quality and excellence of the business mentors, business development managers and the training offered. SCI is a well-resourced organization which is managed by a Chief Executive Officer and is accountable to its own Board of Trustees.

The focus is on the following:

1. Women in construction
2. Youth in construction
3. Civil engineering contractors
4. General building contractors
5. Electrical engineering contractors
6. Mechanical engineering as well as specialized construction contractors registered with the CIDB

2.4.2 The Innovation Hub (South Africa)

The Innovation Hub is Africa's first internationally accredited science and technology park. It is a subsidiary of the Gauteng Growth and Development Agency, itself an agency of the Gauteng Department of Economic Development. The Innovation Hub covers several key sectors including IT, Biosciences, Green Technologies and Industry, and is currently home to 47 businesses. These are made up of fledgling companies who utilize the Innovation Hub's business incubator programme, including access to complimentary Wi-Fi connectivity and mentorship, as well as businesses looking to invest in commercial space to benefit by being part of a networked community of peers. The Innovation Hub is behind the launch of ground-breaking initiatives including the Gauteng Accelerator programme, an initiative designed to build entrepreneurial skills in the biosciences sector.

2.4.3 Timbali Technology Business Incubator

Timbali technology incubator in the Mpumalanga region of South Africa seeks to help rural farmers whose livelihood has been undercut by high-volume large farms. Supported by government financing and fee-based services, Timbali is largely based on a franchise model. Individual clients can begin generating revenue almost immediately by supplying cut flowers to Amablom, Timbali's commercial arm. Timbali helps clients both on-site and off, training them in business methods and helping find start-up loans. It helps clients expand into other product lines and value-added food processing, and has plans to export its model into other parts of South Africa.

Timbali technology incubator was founded in 2003 in an effort to positively affect rural farmers. The word 'timbali' means both flowers and 'to blossom' in siSwati, the language of the region.

Timbali's core values are ingrained in the incubator and apply to every executive board member, staff, employees, incubating clients and pre-incubation hopefuls. These values are:

- Being part of something special
- Hard work with a sense of pride, self-reliance and ownership
- Being a pioneer and not following others
- Science-based innovation
- Honesty and integrity
- Excellence in reputation

Timbali uses key performance indicators (KPIs) to measure the success or failure of its objectives. KPIs include the number of agribusinesses supported, how many are owned by black people or women, the number of new (pre-incubation) projects initiated, the total number of clients supported, how many jobs have been created, how much growth has occurred in each sector, and how many clients are in the pipeline for development (World Bank, 2014).

2.5 Botswana

2.5.1 Gaborone Leather Incubator

This incubator was set up to strengthen the leather industry in Botswana. New enterprises currently include upholstery, shoe manufacture and other leather products. Gaborone Leather Incubator provides:

Courses for the leather sector available to anyone on:

- Design
- Cutting
- Stitching
- Lasting and finishing
- Shared facilities
- Technology and business coaching
- 2-year incubation period
- Materials bulk purchasing facility

2.5.2 Pilane Multi-sector Incubator

Pilane Multi-sector Incubator has attracted a broad range of local companies including food processing, household chemicals manufacturing, etc. Pilane Multi-sector Incubator provides:

- Focus on food processing and manufacturing
- Subsidized rates
- 2-year incubation period
- Technology and business coaching

2.5.3 Francistown Industrial Business Incubator

Francistown Light Industrial Business Incubator houses a wide range of businesses which include manufacture of industrial products, among them steel works, furniture, textile, packaging, etc. This Incubator focuses on:

- Mining-related products such as nuts, bolts and other metal works
- Other blocks to service textile (protective clothing), carpentry
- Subsidized rates
- Materials bulk purchasing facility
- Two-year incubation period
- Technology and business coaching

2.5.4 Glen Valley Horticulture Incubator

Based in Gaborone, Glen Valley Horticulture Incubator has the prime intention of introducing innovative approaches to facilitate increased horticulture production through modern technologies and improved farming practices. This approach ensures sustained transfer of technology and is targeted towards the reduction of imports. This incubator intends to grow high-value, high-demand

crops under a controlled environment using treated wastewater. Currently only tomatoes are grown in the Glen Valley due to their off season high demand. Production structures include tunnels using passive ventilation, greenhouses with a controlled environment, and anti-virus, insect-proof shade nets.

2.5.5 Botswana Innovation Hub

Established in 2006, the Botswana Innovation Hub is focused on key sectors including ICT, biotech, energy and environment, as well as mining. The Hub came about as a result of the realization of the Botswana Excellence Strategy which had as its foundation a national strategy for diversification of the country's economy, job creation and the pursuit of a knowledge-based economy. Several companies and partners have registered with the Botswana Innovation Hub, including Southern Mapping Company Botswana (Pty) Ltd, the University of Botswana, as well as a citizen-owned start-up company called Kaelekae, which focuses on the provision of cellular phone-based platforms for social networking and marketing. This Hub is run by a board of directors.

2.6 Burundi

Burundi has an existing and functional national business incubator. Burundi Business Incubator (BBIN) is the first in Burundi that promotes entrepreneurship and the acquisition of business skills by new MSMEs and existing businesses. BBIN provides pre-incubations services, incubations services and follow-up support to entrepreneurs that have passed through incubation. The BBIN also acts as a one-stop shop for business people and foreign travellers who need a safe, secure and well-equipped facility for business meetings, training or temporary working space.

2.7 Kenya

There are many ongoing public and private business incubation initiatives. Some of the incubation centres and initiatives include the following:

2.7.1 The Kenya Kountry Business Incubator (KeKoBI)

Kekobi emanated from a grant by the World Bank Group's Information for Development programme (infoDev) in 2004 to establish institutional mechanisms for supporting small enterprise development through ICT-enablement. This first infoDev grant to plant the 'seed' of business incubation in Kenya came through a proposal at the Jomo Kenyatta University of Agriculture and Technology (JKUAT)'s Centre for Business Innovation (JKUAT-CBI), which evolved and culminated into the establishment of a national umbrella institution with the objective of establishing business incubators countrywide. The goal is to create healthy and wealthy businesses in the community. The incubator strives to build local capacity in targeted business communities (which includes university alumni/youth, women-owned businesses, businesses owned by the disabled and others), raising awareness, and promoting the appropriation of ICT by local entrepreneurs and small businesses as tools to address their short- and long-term development goals.

2.7.2 The Kenya Industrial Research and Development Institute (KIRDI) - Technology Business Incubator

The KIRDI Board of Directors established the Technology Business Incubator in July 2006 with the aim of enhancing technology transfer and dissemination of the institute's findings that have

a national impact on economic development. Technology incubation is a process that supports entrepreneurs and start-up technology-based enterprises in the development, assimilation, absorption and utilization of requisite technology to accelerate their successful development. Both technical and business development support are provided. KIRDI brings together all the necessary ingredients and environment for building technological capability and facilitating the technology transfer.

2.7.3 Chandaria Business Innovation and Incubation Centre (CBIIIC)

Chandaria BIIC was launched in July 2011 to help guide students' mindset towards job creation. The CBIIIC Plaza is located near the main gate of Kenyatta University. In line with Kenya Vision 2030, it is focused on supporting up to 100 students' innovations/entrepreneurship ideas per year. It aims to blend academic research with entrepreneurship training, predisposing Kenyatta University students' population and Kenyans in general towards becoming job creators. CBIIIC also aims to promote public-private partnerships, and provide a business incubator that can be replicated at national and international levels.

2.7.4 NaiLab

NaiLab is a private ICT Business Incubation Laboratory based in Nairobi Kenya. NaiLab offers a comprehensive incubation service and an outreach service. The latter provides a simplified platform for innovators to be founded by venture capitalists and business 'angels' and investors for African profit and non-profit corporations. In January 2013, the Kenya Government partnered with NaiLab to launch a US\$1.6 million technology incubation programme in an effort to support the growing ICT start-up community. While NaiLab has focused on Nairobi-based start-ups, the technology incubation centre will use the new funds from the Kenyan Government to widen its reach and invest in Kenyan start-ups in major towns and cities from across the country, such as Mombasa, Kisumu, Nakuru and Eldoret.

3. TVET Institutes and Business Incubation

Most of the case studies featured here represent efforts to support business incubation by private, non-profit organizations and other public-private partnerships. Most of the cases feature incubators that focus on entrepreneurship and/or the development of the expertise on business operations needed to set up and run a business in multi-sectors, ICT and agriculture value chain (value addition). In a few cases there was a clear connection between business incubation and TVET institutions. There are plans under the GIZ/NEPAD programme to establish business incubators in selected TVET institutions but none have yet materialized. When they do get going, the incubators under this programme will focus on agricultural value addition.

However, South Africa through the Small Enterprise Development programme (SEDA) is supporting the establishment of a number of business incubators at TVET colleges. Examples include: Orbit TVET College focusing on the automotive industry; and Motheo TVET College focuses on an 18-month incubation model allowing student graduates an entrepreneurial platform to commercialize their vocational skills and move them from 'job seekers to job creators' among others. South Africa also has four business incubators focusing on construction though not necessarily linked to TVET institutions.

Table 5 provides a summary of the region's incubators featured in this study and their sectors.

Table 5: List of business incubators in Southern Africa (non-exhaustive)

Name	Country	Sector
Innovation Hub	Malawi	ICT
InCUBE8	Malawi	Multi-sector
Mhub	Malawi	ICT
BeeBiz	Malawi	Multi-sector
Agribusiness Incubation Trust	Zambia	Agriculture
BongoHive	Zambia	ICT
Harare Institute of Technology	Zimbabwe	Multi-Sector
Impact Hub	Zimbabwe	ICT
Stimulus Hub	Zimbabwe	ICT
SEDA Construction Incubator	South Africa	Construction
Innovation Hub South Africa	South Africa	IT, Biosciences and Green Technologies
Timbali Technology Incubator	South Africa	Agribusiness
Gaborone Leather Incubator	Botswana	Leather
Pilane Incubator	Botswana	Multi-Sector
Glen Valley Incubator	Botswana	Horticulture
Botswana Innovation Hub		ICT, Biotech, energy and environment
Burundi Business Incubator	Burundi	Multi-Sector

Name	Country	Sector
Kenya Country Business Incubator	Kenya	ICT
Kenya Industrial Research and Development Institute	Kenya	Multi-Sector
Chandaria Business Innovation and Incubation Centre	Kenya	Multi-Sector
NaiLab	Kenya	ICT

4. Conclusion

This report presents 23 case studies (these are by no means exhaustive in the region) featuring business incubators operating under contrasting settings and organizational schemes. Small, medium and micro-enterprises (SMMEs) play a critical role in stimulating long-term economic growth and creating jobs. Governments therefore must offer a range of services to support entrepreneurship and innovation in SMMEs. Incubation programmes are an important form of support to existing and aspiring SMME entrepreneurs who get access to both basic services (e.g. physical space, infrastructure and shared services) and advanced services (e.g. networking opportunities, access to specialized knowledge and access to finance). Incubation programmes aim to improve the early-stage survival and long-term growth prospects of SMMEs, ensuring they remain sustainable after graduating from the incubator support.

Business incubation is a relatively new concept in Malawi. Those few available are urban based providing business development services and office space to local entrepreneurs; except BeeBiz, which focuses on poor urban cities. Innovation Hub and Mhub are technology and innovation focused. InCUBE8, on the other hand, offers a range of services to all entrepreneurs regardless of sector. The GIZ/NEPAP programme will support four private technical colleges that offer agricultural courses to develop business incubators. It is envisaged that apart from the general business services, the technical colleges will also offer entrepreneurial training, technology transfer and linkages with other services providers. Conversely, the SMEDI business incubator will focus on value addition in agriculture. The proposed pilot incubation centres at three TEVETA³ Community Skills Development Centres (one per region) are now called production centres. They will offer space for trainees' production, have a retail space for displaying and selling the products and provide business advisory services.

There are several conclusions that can be drawn from this mapping of successful business incubators in the region.

- **Careful selection:** Business incubators need to attract the right kind of people. Focusing on people who are ready now and need capital and some specific knowledge to move things to the next level is the key.
- **Include the provision of education,** mentoring and related support services, plus access to financing and wider networks.
- **Have a strong motivation ethos:** Incubators with a low-motivating environment that does not stimulate business start-ups are bound to fail.
- **Give the entrepreneurs space to develop:** Incubators that do not work are those that select a group of people or entrepreneurs and bring in another group of experts to show them how to do things. The incubator forces the start-ups to pivot to particular things that the entrepreneurs may not be knowledgeable about. Instead, an incubator that works is one where the focus is on finding the very best entrepreneurs, giving them leeway to figure

³ Technical, Entrepreneurial and Vocational Education and Training.

things out and have people in place to show the entrepreneurs specific technical aspects (e.g. finances, human resources, marketing, etc.).

- Successful incubators learn to **fund themselves as they mature**.
- Incorporate a **range of strategies** to help their clients to **manage the risks** associated with start-ups through a combination of technology, institutional and networking strategies.
- **Motivate and train the best possible team** to run the incubator. Experience has shown that dynamic and entrepreneurial managers are crucial to set the course of the incubator, while cautious, overly academic or bureaucratic managers generally fail to produce high-impact initiatives.
- Importantly, successful incubators have a **powerful demonstration effect**: Previously untried ventures become possible and positive energy for change becomes diffused.
- **Have realistic goals and strong partners**. Incubation is a new concept in Malawi; its success will require a concerted effort and strong policy support and a supportive environment from the government in addition to financial and in-kind contributions. The government role should be focused on creating technical infrastructure, policy framework and initial finance and to help business start-up processes. Donors should focus on investing directly in the leadership development of the incubator, including capacity-building for high-potential individuals, global networking and knowledge-building opportunities, and disseminating effective strategies for recruiting and retaining talent in the incubator sector.
- **Develop partnerships with other key stakeholders**: An incubator is rarely self-sufficient and needs partners to succeed. Some of the incubator's services will be outsourced to competent existing stakeholders, while other competencies will be developed internally in the incubator. The arrangement will allow the incubator services to be delivered by the most appropriate organization and leverage-existing expertise, networks and overheads while reducing duplication of existing activities. For example, private-sector banking stakeholders and entrepreneurs will be particularly desirable for their expertise, networks and understanding of small business development.

In addition to the above, a range of qualitative and quantitative measures are required to evaluate the performance related to both the internal performance and outcomes. The core of the monitoring and evaluation system should be the assessment of performance against KPIs and annually using these organizational indicators as a basis for the development of KPIs for all staff. KPIs are in four key performance areas: customers; financial; human resources; and innovation.

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The programme will run from 2016-2020 and aims to improve TEVET at post-secondary level with focus on female learners; improving quality in the sector; and establishment of clear governance structures.

The STEP Research Series presents the highlights of the research undertaken by the programme.

The findings of the Lessons for Supporting Business Incubators in Malawi is the sixth research report in the STEP research series.

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