

What Works: Business Incubators for Rural Youth

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WHAT WORKS: BUSINESS INCUBATORS FOR RURAL YOUTH

This Brief is part of the Solutions for Youth Employment (S4YE) Knowledge Brief series focusing on the design and implementation of youth employment programs. This knowledge brief highlights the relevance and challenges of business incubation services for youth in rural areas. It is based on discussions during an operations clinic that was organized jointly by S4YE and GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit)¹ in Fall 2021.

The operations clinic discussed four rural business incubation projects. Two of these are implemented by GIZ in Kenya and Mozambique, respectively. Participating World Bank projects included the Sierra Leone Agro-Processing Competitiveness Project² and the Ferghana Valley Rural Enterprise Development project³ in Uzbekistan.

Design elements outlined in this Brief were extracted from examples shared during the clinic. These elements aim at addressing specific challenges of business incubation services for youth in rural areas. These include 1) Creating a network-based ecosystem for rural incubation, 2) Promoting on-site incubation as opposed to co-working (office) space ("incubator without walls"), 3) Guaranteeing access to markets by involving the private sector, 4) Screening entrepreneurs, 5) Combining different types of financial sustainability models based on local conditions, and 6) Promotion of pro-women incubation to address the "triple burden" faced by young women in rural areas.

The S4YE and GIZ teams hope that these insights would be useful to other teams attempting to implement rural incubators in rural areas.

1. WHY ARE BUSINESS INCUBATORS IMPORTANT FOR RURAL YOUTH?

There is potential for rural youth employment in the agri-food sector. The number of youth in developing countries is expected to increase from 1.2 billion today to over 1.6 billion over the course of the next 15 years.⁴ In sub-Saharan Africa alone, this number is expected to more than double by 2050 and reach almost 600 million by 2100, with most youth living in rural areas.⁵ World Bank analyses in 2016 found that [65 percent of poor working adults](#) made a living through agriculture. While this presents opportunities for economic development in the agri-food sector, it also poses a huge challenge for national employment systems.

Business incubators have the potential to support youth in starting, improving, and growing their businesses. The World Bank's [infoDev](#) defines business incubation as a process that nurtures innovative, early-stage enterprises with high growth potential to become competitive businesses. A business

¹ Federal Ministry For Economic Cooperation And Development (BMZ), Germany is one of the founding partners of S4YE and the main commissioning agency for GIZ

² P160295

³ P166305

⁴ (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2020)

⁵ (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2020)

incubator provides a *combination of shared facilities and equipment, business development, market access, technology transfer services, financial services, mentoring, and networking*.⁶

[Solutions for Youth Employment \(S4YE\)](#), housed within the Jobs Group at the Bank, brought together operations on rural incubators for an operations clinic with GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) in Fall 2021 to discuss what challenges practitioners experienced in designing these rural incubators and how they attempted to solve them.

The operations clinic discussed the experience of four projects. Two of these are pilot projects implemented by GIZ- Agri-Jobs 4 Youth Initiative, Kenya, and the Rural Incubator Approach Pilot Mozambique. Participating World Bank projects included the Sierra Leone Agro-Processing Competitiveness Project⁷ and the Ferghana Valley Rural Enterprise Development Project⁸ in Uzbekistan.

An important point to note here is that these projects are largely early stage/ pilot projects which are testing out new design approaches . The information presented in this note is not indicative of the final impact of these projects. The goal of this note is to capture tacit insights from ongoing work, which can be useful for other teams attempting to implement similar rural business incubators for youth.

Some of the guiding questions for the session included:

- What works in rural incubation, especially in agribusiness incubation- differentiating it from general business incubators?
- How do you make incubators sustainable in rural areas as these are less densely populated?
- What are some common challenges?
- What are some ways that teams can make these projects more gender-inclusive?

Rural business incubators tend to differ from other business incubators in many ways. Some features identified by participants during the discussion in the operations clinic include.

- **Focus:** Rural incubators often focus on the Agri-food sector.
- **Target Beneficiaries:** The target beneficiaries for rural incubation may have lower general, digital and financial literacy levels.
- **Cost-effective:** These incubators prefer relatively basic, low cost and scalable solutions.
- **Model:** The standard approach among these models focuses on capacity development and coaching for its beneficiaries and on supporting innovation, either at a technological level or in business and production practices.
- **Context:** Regardless of the model to be established, it is crucial that it meets the specific needs of the country, region, and community. However, this might be challenging in rural areas because of their distance to innovation hubs that are usually based in bigger cities. These larger, urban hubs often benefit from significantly lower transaction costs and a much more diversified ecosystem than rural business incubators.

Thus, there is an urgent need for effective incubators that can catalyze opportunities and overcome challenges in rural areas.

⁶ (Koiri, 2014)

⁷ P160295

⁸ P166305

2. SOME DESIGN STRATEGIES THAT WORK: BUSINESS INCUBATORS FOR RURAL YOUTH

Based on the different inputs from discussions with projects in Kenya, Mozambique, Sierra Leone, and Uzbekistan, some insights on the successful design of rural business incubators emerged.

1. Creating a network-based ecosystem for rural incubation

It is important to opt for a network-based ecosystem approach to overcome institutional capacity and infrastructure gaps in rural areas. For example, an established partner in an urban or peri-urban area can act as a network of incubator hubs of more community-based institutions ("satellites" or "hub and spokes") and provide skills training and mentorship support. An example of this approach is the Kenyan Model of Agri-incubator supported by GIZ and implemented through Lake Hub (Box 1).

BOX 1: Lake Hub – Kenyan Model of Agri-incubator supported by GIZ (Phase 2)

LakeHub is primarily based in Kisumu, the third-largest city in Kenya. Under the GIZ incubator Project in Kenya, LakeHub and the Association of Startup and SMEs Enablers of Kenya (ASSEK) work together to provide organizational and business development support and enable the development of curricula and standards for incubation acceleration while also opening up its network to rural entrepreneurs in the region.

LakeHub is functioning as a *super incubator* supporting vocational training and community-based centers to provide incubation services to their members and target groups. It works with a satellite structure, enabling streamlined outreach, and filling existing capacity gaps. The provision of support to other incubators within the country, supporting the building of skills locally, and helping local talent to reach a broader network is an important component of this project which is being scaled to 4 counties targeting 120 start-ups.

These networks can be used to combine incubation with supplementary services for youth. It is important to go beyond stand-alone solutions and support youth with a viable business model for startup or business growth. This "integrated approach" can be an integral part of the wider program or linked to a broader rural development ecosystem with services offered by different institutions in a network/ecosystem-based approach. For instance, combining skills development initiatives offered through national extension services with increased access to finance involving local financial institutions, along with the rural incubator network services, can promote more sustainable business models.

2. Promoting on-site incubation as opposed to co-working (office) space ("incubator without walls")

Agribusiness works differently from tech businesses. They need demonstration plots, facilities like greenhouses, processing factories, and machinery to develop prototypes on site. Thus, rural business incubators often need a more hands-on approach, and just providing co-working spaces may not be enough. In this vein, World Bank's Sierra Leone's Agro-processing Competitiveness Project (SLAPCP) provides on-site incubations as part of its SME Technical Assistance Facility for firms and SMEs in Sierra

Leone. This format works better for youth in rural areas with low literacy levels who need hands-on learning approaches.

3. Guaranteeing access to markets by involving the private sector

The lack of reliable access to markets is one of the most significant deterrents for rural youth. Any approach that supports intermediation (without exploitative middlemen) from distribution chains (direct-to-market model or targeted sourcing) can help young agribusiness owners improve their income. Innovative incubator approaches like the ‘in-grower’ model of AgriDev (Box 2), where young farmers learn how to operate a business, receive all inputs (including land), as well as guaranteed access to markets, can also remove many barriers for youth in agriculture.

BOX 2: Using an “in-grower” incubation model

AgriDev is a private agribusiness firm in Nhamatanda, Mozambique, working with global value chains in beans and other agri commodities. Agri Dev partners with local technical agrarian institutions to select interested graduating youth who have basic technical knowledge of agricultural practices. These youth receive induction training, financial management, and business plan development training. Land and other capital resources are provided by AgriDev for up to 12 months to youth. The youth do not invest anything and agree on sharing a certain percentage of profit with AgriDev at the end of the production cycle. They are provided guaranteed access to market for this period. Then at the end of the 12-month cycle, youth experience is reviewed to decide whether they want to establish their own businesses or continue working with Agri Dev through the in-grower model.

4. Screening of entrepreneurs

Identifying growth-oriented entrepreneurs for rural incubation is very important. Many youth are forced into entrepreneurship in rural areas because there are no other opportunities available. However, they often do not have the capacity or motivation to grow their business. It is important to develop diversified business models and employment opportunities for a heterogeneous group of youth with different educational backgrounds, capabilities, and motivation. For example, in Kenya, GIZ is working with two different targeting approaches. Firstly, they are working with the Kenya Industrial Research Development Institute to target youth at the idea stage. Here the focus is on providing technical skills and access to infrastructure facilities. In another partnership with Lake Hub Foundation that targets youth with existing businesses, there is more focus on business skills development and mentorship.

Especially for more complex and innovative business models, it's essential to design a well-thought selection process. Entrepreneurs should be invited to share their understanding of business models and provide a workplan for the business to grow. Since rural incubators usually have smaller targets, the project may run the risk of failure if the individual enterprise failure rate is high. Youth may face the additional risk of being left with losses or even trapped in debt cycles. For example, the SL Accelerator in Sierra Leone used performance metrics from the conceptual stage and provided phased funding instead of providing all the funding together. The team had conducted an earlier diagnostic of businesses and found that many startups faced liquidity challenges when all the funding was provided together and hence faced cash flow issues. Without support, many would not be able to keep their businesses in operation. For this reason, phased grants were allocated.

5. Combining different types of financial sustainability models based on local conditions

Financial sustainability is an essential but challenging element of agribusiness incubators. When starting a pilot incubator, it is crucial to consider the financial resources needed. Providing the right skills and tools is important but may not be enough without the necessary financial resources.

Agribusiness incubators use a variety of funding models. Rural incubators need "core funding", as they target less advantaged and lower educated youth in remote areas. Broadly, there are three key sources of "core" funding: *government, development organizations, and corporates.*

Revenue models and typically mixed. There are three basic funding models for rural business incubators.

- **Royalty fee on sales:** When startups can meet targets set during the diagnostic phase, with the incubator's help, then the startup pays a certain royalty fee. For example, [CenTev](#) Technology Incubator in Brazil supports technology-oriented business, including agribusiness. The Brazilian incubator provides free services that include management and technical training, market research, business plan development, technological innovation, business development software, and a strong institutional network. CenTev's main source of revenue is the royalties it gathers from graduated companies. The fee is equivalent to 0.5% of the monthly earnings of post-incubated firms.
- **Financial brokering on raising capital:** If the incubator can connect the startup with the financial and investment services required, there is a specific percentage of brokerage fee to be paid to the incubator.
- **Contractual fee:** An example of a contractual fee is if an incubator connects a startup business to an e-commerce platform. When the startup meets a certain threshold of sales, the incubator is then paid a contractual fee.

6. Addressing the "triple burden" faced by young, rural women

Women comprise an average of 43 percent of the agricultural labor force in developing countries⁹ with over 50% in some African countries.¹⁰ Thus, incubators need to incorporate a gender-sensitive design to support women-led enterprises.

Female-led associations can help in reaching more women. Targeted outreach to women-owned SMEs for capacity building and matching grants can also promote significant female participation in incubator programs. Some such pro-women strategies used by SIAccelerator in Sierra Leone included:

- **Intentional Targeting:** The technical assistance facility targeted women-owned SMEs for capacity business and matching grants through referrals and bootcamps to build a pipeline of women-owned enterprises. As a result, of the 30 SMEs targeted to improve productivity, 12 were women-owned (40%). Similarly, 8 of the 20 new investments (40%) made through the project in agribusinesses were in women-owned businesses.

⁹ (FAO - Committee on World Food Security, 2015)

¹⁰ [Uganda, Tanzania and Malawi have female participation rates of above 50%](#)

- **Women-friendly project design:** There was strong female representation in technical advisory committees as well as gender considerations embedded in regulatory reviews and project iterations.
- **Exemptions:** The facility provided additional weight in the scoring system for women-owned SMEs with credible business ideas. They also provided flexibility in matching grants requirements- for example, no need for audited account reports for women-led startups.

3. CONCLUSION

Rural Business incubators can help support youth in developing countries in establishing productive enterprises with the potential to scale up job creation. For the development of successful incubators, it is important to use a network approach using existing institutions rather than create new ones. However, enabling conditions are required for long-term sustainability. Building on local institutions and value chain networks to establish a strong (or at least a functioning) business "ecosystem" is important. This needs to be context-specific and use a "modular" approach that provides different "incubation services" for different target groups. Finally, there is, of course, no one size fits all approach in agri-business incubation.

The findings and conclusions presented in this brief are preliminary and based on a limited number of projects, some at an early stage, that participated in the operations clinic. The team welcomes additional insights from other project teams that would be helpful to teams designing such rural incubators.

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S4YE is a multi-stakeholder coalition that aims to provide leadership and resources for catalytic action to increase the number of young people engaged in productive work. It is a global program housed in the Jobs Group of the Social Protection and Jobs Global Practice of the World Bank Group. It consists of a network of over 35 private companies (Private Sector Advisory Council), a network of 44 high-potential and innovative youth employment projects (Impact Portfolio), a group of talented and enterprising global youth (Youth Advisory Group) that provide youth voice on the design of youth employment programs of S4YE and the World Bank and has a network of 150 World Bank youth employment projects in 69 countries.

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ANNEX A

The operations clinic discussed results from four projects.

Two of these were pilot projects implemented by GIZ in Kenya and Mozambique. GIZ- Agri-Jobs 4 Youth Initiative, Kenya and the Rural Incubator Approach Pilot Mozambique.

The GIZ's Global Project "Employment in rural areas with focus on youth" The program's rural incubator approach focuses on creating an integrated approach at an employment level, enterprise and skills development, and startup promotion. The Project's integrated approach focuses on a few innovative enterprises and targets a broader range of services provided to a wider population. Critical aspects of the Project are:

- Range of agri-food businesses models and targeted products
- Strong focus on stakeholder engagement, especially in cooperation with the private sector and youth engagement
- Semi-formal skills development through short courses, life skills, etc.
- Establishment of linkages and cooperation arrangements with development partners
- Knowledge sharing

The program is being implemented in among other in Kenya and Mozambique. The Kenyan Incubator Approach is supported by the Kenyan Industrial Research and Development Institute (KIRDI) (affiliated with the Ministry of Industry and Trade) and private service provider LakeHub Foundation. Under the Project, these institutions developed two similar 6-month hybrid incubation programs. The incubator program run by KIRDI targeted all youth with an initial business idea (in baking technologies and fruit and vegetable value addition). The incubator led by LakeHub targeted youth organizations' members with already existing formal or informal agri-businesses.

The Mozambique project is at an earlier stage. It works in two northern regions of the country Sofala and Nampula. It targets unemployed youth, focusing on women (15-35 years). The incubator follows an integrated approach (BMZ/GIZ) to support skills building and employment and has as amongst its goals to attract more youth into agri-business. It also aims to link rural and urban youth, supporting MSMEs and startup development and creating more productive jobs.

Participating World Bank projects included the Sierra Leone Agro Processing Competitiveness Project¹¹ (FCI, World Bank) and the Ferghana Valley Rural Enterprise Development Project¹² (Agriculture & Food GP, World Bank).

The Sierra Leone Agro Processing Competitiveness Project (SLAPCP) is a project between the Ministry of Trade and Industry (MTI) of the Government of Sierra Leone (GoSL) and the World Bank's Finance, Competitiveness and Innovation (FCI) Global Practice and has setup a SME technical assistance facility, SL Accelerator. On the other hand, the Ferghana Valley Rural Enterprise Development Project is in early development stages and has an objective to support the expansion of rural enterprise activity and job creation in the Ferghana Valley, Uzbekistan.

¹¹ P160295

¹² P166305