Business Incubator for local Economic Development

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Abstract

Local Economic Development is the process by which public, business, local government and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation in a defined administrative area. In this process, the local area will provide a conducive environment for economic growth of the public. This may be, creating appropriate wage or self employment. There are various mechanism to create sustainable employment avenues such as investment subsidy, infrastructure development, business incubator, etc.

Business incubator will provide infrastructure facilities to the upcoming entrepreneurs in a given area. This will reduce the investment burden of the entrepreneurs. In addition to this the incubator will also give business process support, such as technology, developing systems, marketing, etc.

This paper illustrate the importance of business incubator in promoting entrepreneurship and employment avenues in the local area.

INTRODUCTION

Local Economic Development is the process by which public, business, local government and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation in a defined administrative area. In Local Economic Development (LED) local governments and community-based groups manage their existing resources and enter into new partnership arrangements with the private sector.

Regardless of the form it takes, LED has one primary goal, which is to increase the number and variety of job opportunities available to people. In performing these activities, local governments and/or community groups must take on an initiating rather than a passive role. Practicing local economic development means working directly to build up the economic strength of a local area to improve its economic future and the quality of life of its inhabitants. Prioritizing the local economy is crucial if local bodies are to be able to compete in the fast changing world.

Each local body has unique local conditions that can help or hinder its economic development. These local attributes will form the seeds from which a local economic development strategy can be developed. To build competitiveness each local body needs to understand and act on its own strengths, weaknesses, opportunities and threats. It will then make its local area attractive to business, new employers, skilled workers and supporting institutions. Local Economic Development is necessary because:

- Economic development raises overall productivity and incomes.
- Additional development can help maintain a high level of employment and job quality.
- It can help to create the jobs necessary for providing opportunities for the jobless and working poor.
- It can help to increase the revenue of local self government.
- It will increase the standard of living of people.
It can provide the earnings needed to make further investments in education, government services, amenities, infrastructure, and quality of life.

PRINCIPLES OF LED

LED focuses on enhancing competitiveness as also increasing sustainable growth. It also ensure that the growth is inclusive. Therefore LED encompasses many different disciplines, such as planning, economics and marketing. The key principles of LED consists of:

- Prioritize job creation and poverty alleviation
- Target disadvantaged people, marginalized communities and geographical regions.
- Promote local ownership, community involvement, local leadership and joint decision making
- Uses local resources and skills and maximizes opportunities for development
- Involves the integration of diverse economic initiatives in an all-inclusive approach to local development.
- Help the local governments to augment their income/infrastructure
- Help to improve the standard of living.

LED STRATEGY

i) Resource & skill mapping: To increase the employability of the locale, either for wage or self employment, it necessary to understand the current status of resources. Therefore, a resource mapping will be the first step. This will include both the human and natural resources. This will help in identifying the viable business opportunities in the local area. Further skill mapping will help in identifying the skill gap, if any, required for both self and wage employment.

ii) New enterprise creation: Enterprises are considered as the engine for economic growth. New enterprise creation needs concerted efforts. Facilitating the emergence of new enterprises needs a systematic approach. Various strategies are followed to develop the new entrepreneurs.

iii) Facilitate Wage Employment: Employability of the individual is the major hindrance to get the quality job. To attain the local economic development at the optimum level, the local people should get quality job. It is therefore necessary to understand the skill level of the entrepreneurs look for. Comparing this to the exiting skill of the local people, one can understand the skill gap. Bridging the gap through proper training the local people will get quality job.

iv) Strengthening the Existing Entrepreneurs Including Clusters: Most of the trade and business in the local area is struggling for their survival. By virtue of being the business, they are carrying out their activities. As a part of the LED, one should work for their sustenance and growth. The interventions will include the following:

- Providing business counseling
- Help in functional management areas like finance and accounts, quality control, system development, market development, etc.
- Net working
- Mentoring
- Help in expansion and diversification
- Increasing the competitiveness of cluster members

v) Provide a Conducive Environment/Climate for business growth and investment attraction: Many investors are apprehensive as their hard earned money should not be blocked due to cumbersome procedures and formalities. It is the local body to create a conducive environment for investment attraction. This may be either providing physical infrastructure such as parks/incubators or improving the processes and procedures for business registration.

vi) Equip the Panchayat Raj Institutions on LED: Local self government is the focal point for LED. The members involved in the institutions should be sensitized about the various facets of local economic developments.
BUSINESS INCUBATOR

For the successful initiation of this strategy, it is recommended to implement the entrepreneurship model focusing resource mapping and investment mobilization. The so called entrepreneurship development programmes are mainly focusing providing funding support and to a certain extent facilitate the start ups. Business as such encounter multifarious problems. These problems are at times may not be solved by the entrepreneur and the result may be the closing down of the unit. It is therefore needed to create an enabling environment for the survival and growth of the units. A business incubator can give this environment for the survival and growth of business.

There are various definitions for business incubator and there is no single way by which one can categorize an incubator. One of the definitions for Business Incubator is “an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services. A business incubator’s main goal is to produce successful firms that will make the programme financially viable and self-sustainable. The key factor for the success of a business incubator is the acceptance by the local business and the ability of the local community to generate new entrepreneurs. It has been proven over the years that when enterprises are created they draw up on the local resources including the human resources. This in turn ensures the utilization of hitherto untapped or unidentified resources thereby optimizing the wealth creating abilities in the local community.

SERVICES TO BE PROVIDED BY BUSINESS INCUBATOR

- Basic Physical Infrastructure like; Land, Building, Electricity (Power), Water, Telecommunications.
- Sharing of certain physical infrastructure to reduce the initial investment cost and also recurring costs; for e.g. Common power installation cost will reduce the investment cost and sharing of telephone lines will reduce the recurring cost of telecommunications.
- Based on the needs assessment, the Business Incubator will work on promoting enterprises, which would require common technological facilities. To ensure reduction on investment costs and also to ensure optimum utilization of investments, common machinery to be used by the enterprises would be provided under a common facility center. This will be supplemented with adequate management and skill training to local population for, both using the common facility center machinery and also to identify potential entrepreneurs for enterprise building.
- The Incubator, using its technical and financial experts, will work with the entrepreneur to prepare viable business plans (project reports) and in association with the local self-government, the state government, will work on providing adequate funding support for the proposed enterprises.
- It has been felt that in the initial phases of enterprise creation, the entrepreneur faces a starting crises, most of which is due to lack of experience. To ensure that the Incubator Entrepreneur does not face such problems, services of experts on a retainer ship basis will be provided to the enterprises. These services would be mainly on consultancy basis and would essentially cover, accounting & auditing services, legal services, financial and tax consultancy, technical and technology identification and transfer services, marketing and distribution consultancy, human resources training services, ISO and TQM facilities etc. Apart from these, even low services like secretarial, communication, housekeeping and facility management services could also be envisaged. Since all these services are being shared, they are expected to reduce the overall management costs of the enterprise.
- Specialized services like common effluent treatment plants, Internet café, common facilities for workers like cafeteria, recreation facilities and medical facilities can also add value to the incubator.
- The incubator will also work towards ensuring proper banking services, postal services, courier & transport services for smooth financial and product logistics.
- The Business Incubator will also provide adequate warehousing services for storage of raw materials and finished products of the tenant enterprises. It will strive to create a clustering phenomenon by building trust and better communication among the tenant enterprises. Thus, the warehousing services can be converted into a raw material bank and the finished products warehouse can be used as a tool for common marketing and distribution. It can also work on common branding of the outputs of the incubator.

The services provided under the banner of the Business Incubator will not be restricted to the tenants of the incubator but will also be extended to the local population thereby making it a hub of economic activity to ensure a commercially driven local economy.

STAKEHOLDER ANALYSIS FOR BUSINESS INCUBATOR

A business incubator for Local Economic Development should have various stakeholders Therefore it is necessary to identify proper stakeholders for the LED incubators. While the LED Business Incubator is expected to operate at a local level, the stakeholder analysis has to be done in the macro-economic context. Hence the stakeholder analysis has to be done on a national or even an international level. However for this purpose, the stakeholder analysis has to be done based on how they can contribute to the LED Business Incubator.

**The Central Government:**
The central government through its decentralization process has been providing funding to the local self-government bodies under various heads. These funds could be utilized for the purpose of creating the Business Incubator. Apart from the direct financial support, many Central Government Agencies and Organisations like Development Commissioner Small Scale Industry, Development Commissioner Handicrafts, Small Scale Service Institutes, etc could also provide support for such initiatives like Business Incubator for Local Economic Development.

**The State Government:**
The state government supports the local economy through various measures. The Kerala Government has already transferred powers for planning of social and physical infrastructure development to the panchayat level. This has been benefitting the local areas as the people have been deciding the nature of development and the quantum and quality of development they want. To support such development, the government has been encouraging Grama Sabhas and grass roots movement and awareness programmes. The government has also been providing new programmes which could be adopted by the local governments; like the water, sanitation and health programmes, organic farming programmes, women and child welfare programmes.

To support the initiatives, the state government has been providing support to the local self government institutions through supplementing the funding support extended by the central government. Special projects and missions of the Kerala government also extend support to the local self government bodies, significant among them are the Information Kerala Mission and the Kudumbashree project as a part of computerisation of all records in the local self government bodies and state poverty eradication mission respectively.

**Panchayat Raj Institutions:**
Local self-government department of the State Government is implementing various schemes like Swarnajayanti Swarojgar Yojana (SJSRY), National Rural Livelyhood Mission (NRLM), etc. These projects are being directly implemented by the local self government bodies under the de-centralized 3-tier governing system namely; Village Panchayat, Block Panchayat and Jilla Panchayat. This system gives more autonomy to Panchayat Raj Institutions (Local Self-Government Institutions). Panchayat Raj Institutions can play a better role in resource mapping, infrastructure development and a catalyst
for the entire process. The Parliament under the 73rd Constitutional Amendment provided wide ranging powers to the Panchayat Raj Institutions, which included poverty alleviation, building the local physical and social infrastructure etc. Thus it is now clear that under the mandate given to the Panchayat Raj Institutions, they may facilitate in creating an environment conducive for business and developing an entrepreneurial culture in the local area. The flow of adequate funds and manpower resources to create the LED Incubator would essentially be the role of these institutions. These institutions are key to the success of the LED Incubator.

**Banking Institutions:**

Providing adequate financial support to the tenants is the key factor for the success of local economic development. Through various interventions, the local community exhibited saving habits and an inclination to income generation activities. Availability of adequate and low cost credit without collateral security is a major hindering factor for the local population venturing into entrepreneurial activities. Banking Institutions would be prime stakeholders ensuring the success of the LED Incubator. Banking Institutions in Kerala have over the years been slack in credit off take. This is mainly due to lack of investment within the state in Industry and Commerce. This concept of LED Incubator provides the Banking Institutions an opportunity to lend to a scientifically planned investment. This would give the bankers an opportunity to participate in local asset building. The Banking Institutions would not only be called upon to support the industry within the Incubator but also in financing the incubator itself. Kerala has a host of formal Banking Institutions in both the public sector and the private sector. The State Bank of Travancore, Kerala State Industrial Development Corporation, Kerala Financial Corporation, Kerala State Financial Enterprises are key financial institutions in the public sector operating in Kerala. The South Indian Bank, The Federal Bank, Catholic Syrian Bank, Lord Krishna Bank and many other private business houses have created banking and financial institutions of good repute in Kerala. There are also a large number of Regional Rural Banks and Agriculture Credit Cooperatives. Apart from these institutions, there are many informal financial institutions in the form of chit-funds and “blade” companies, which are at the moment ruling the roost due to lack of depth in the banking and financial institutions in percolating to the rural areas. It is also a measure of the high bureaucracy and long stretching formalities that the existing businesses turn to informal credit. Another aspect of banking institutions is their ability to create credit and develop financial intermediation in the rural areas. At the moment, lack of financial intermediation is creating problem with people transacting large transactions in cash.

A good banking system will provide the financial backbone to the LED Incubator. It is however, necessary that the bankers are provided appropriate training to provide support the entrepreneurs of the Incubator and to understand the banking needs of such entrepreneurs.

**The Local Industry Associations and Trade Bodies:**

It is necessary to have role models for motivating local people. This is more prominent in a society bereft of entrepreneurial spirit. The involvement of local Industry Associations and Trade Bodies will help the incubator in various ways. They can enthuse their members to take tenancy in the incubator. They can also provide technical information to the tenants through a mentoring process. Over and above this, a vibrant entrepreneurial fraternity in the local area could also ensure social development and public utility development. The members of the Local Industry Associations and Trade Bodies could also provide viable market access to the tenant units.

**Local Population:**

The Local Population is the greatest beneficiary of the LED Incubator. However, it is also the stakeholder, which will provide the entire resource base of the incubator. The key success parameter of the LED Incubator is the exploitation of the local resources in terms of Raw materials, Local Skills or Natural Environment. The local population’s willingness to part with or share these resources is very important. Also, the acceptance of such a concept in the local area by the population is also a key
factor. This is not an easy proposition in Kerala. Hence, before planning an LED Incubator in an area a baseline survey to understand the demographic characteristics of the local populace as also a needs assessment survey to be done to ensure viability of the project in the local area.

BUSINESS PROCESS OF LED INCUBATOR

The business incubator for LED will be implemented through a special purpose vehicle called LED Incubator Company. The LED Incubator will also have a common facility centre (CFC) and each LED Incubator will be expect to host at least 30 units based on the needs assessment survey. Of these units, some may be service providers like banks, courier and transportation company etc. The CFC will be managed as a commercial venture by the LED Incubator company.

The LED Incubator will be managed by key stakeholders representing the entire gamut of beneficiaries. These board members would include Tenant Entrepreneurs, Bank and Financial Institutions representatives, Local Population representatives, Trade Union Representatives, Key Management Consultants, Local Area Executives of the Government (Collector/BDO etc). The company will essentially be a not for profit venture. However, it will strive for generation of surpluses, which will not be used to pay dividends to contributors of equity or stakeholders. The surpluses so generated will be used to develop physical and social infrastructure in the Local area including the incubator itself. This company will also be eligible to invest in other LED incubators or organizations created to support the tenant enterprises.

THE MAIN FUNCTIONS OF THE COMPANY ARE AS UNDER:

- Identifying viable business opportunities based on natural resources, skills available, and the needs of the local area or the market. Ideally, opportunities chosen should be interdependent as this helps in creation of a new cluster in the long run.
- Provide appropriate infrastructure to support creation of new enterprises.
- Provide administrative support like manpower (secretarial, accounting, housekeeping etc) so as to ensure reduced cost of operations for the tenant units.
- Inculcate entrepreneurial spirit amongst the community through motivational and management training through outreach programmes.
- Identifying and sourcing resources, both technical and financial start-up of tenant units.
- Help them in marketing the products and provide them with market intelligence.
- Hand-holding for business development and growth through empanelled consultants (also trained in-house.)
- Create Common facility center to support the tenant units and to reduce the cost of investment for the tenant units.

The revenue for the company shall come from usage fees paid by the entrepreneur for the services provided by the company, surplus generated by the common facility center and the usage charges paid by the Local Population for the physical infrastructure created by the Company out of the surplus generated by the company. The company may also invest the investible surplus of the company in income generating securities specified by the Government. There may be an income stream from such interest also. The company can also generate some revenues from the training programmes that it may conduct for Entrepreneurship and Management.

**ENTREPRENEUR**

The Tenant Entrepreneur is the greatest beneficiary of the LED Incubator. Therefore, his involvement in the process of creation and running of the LED Incubator is very important. The services and benefits provided by the LED Incubator shall depend on the demands of the tenants and the more demands that the entrepreneur makes the more services shall he get. However, this is also based on his ability and willingness to pay for the services provided by the Incubator.

**SOCIAL COST BENEFIT ANALYSIS**

- Will create an entrepreneurial culture amongst the locals
- Facilitate setting up of enterprises in the local area
- Direct Employment in the local area
- Check the unwarranted migration of the locals
- Utilization of local resources effectively, providing income benefits to the local produces.
- By providing self-employment opportunities to the unemployed, social evils will be minimized.
- Provide support to existing entrepreneurs for their further growth
- Develop industrial clusters
- Increase in local trades and other commercial activities
- Facilitate a quality way of life to the locals

In short the Business incubator will create an attractive business environment in the local body. This will help in attracting investment for new enterprise creation. Further it can also help the existing entrepreneurs for expansion and diversification. The following figure will give a gist of benefits through Business Incubators.

ROLE OF LOCAL SELF GOVERNMENT IN LED

Following the 73rd and 74th Constitutional Amendments, decentralization efforts in the country have received increasing emphasis. Government of Kerala decentralized all relevant functions to local institutions with an adequate financial backing and transfer of staff from the line departments clearly marks a new era in decentralization within the state. In Kerala, LED could be implemented for a village panchayat, block, district or a municipal township area. Local self Governments of Kerala have made immense progress in the infrastructure development of their area. However, the efforts to entrepreneurship development are to be further sharpened.

CONCLUSION

For Economic Development, there are various business models such as Rural Business Hubs, Technology Parks, Industrial estates etc. All these have its own uniqueness. However, a Business Incubator will provide not only the logistic support to the entrepreneurs but also provide business advocacy services for its survival and growth. This business incubator should be managed by professionals and should develop a business model for its own growth. It was observed that for social cause Common Facility Centres have been initiated. However, without a sustainable business model, these CFCs are not able to survive. While advocating a Business Incubator for Local Economic Development, it is necessary to develop a sustainable business model for the incubators survival. This model will pave vistas for developing business as well as a creating entrepreneurial society.

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