

PRACTICAL ACTION
Consulting



A Feasibility Study into the Establishment of a Small Business Incubator in Guinea-Bissau

The International Peace and Prosperity Project

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Executive Summary

Guinea-Bissau is a small country striving to stimulate economic development – currently the economy is too dependent on Cashew production.

There are efforts underway to assist in small business development. A key player in this is the Catholic Church which already runs two training institutions in Bissau and Bula, other active parties include two chambers of commerce and other national institutions notably Fundei.

The majority of businesses in Guinea-Bissau are small with an average of 5 staff and a turnover of approximately \$10,000. Business operations include trade, carpentry, metalwork, agricultural processing and building trades.

There are training institutions producing skilled graduates but there is little support for entrepreneurs wishing to launch into business.

This study recommends that an integrated Small Business Incubator (SBI) and follow on business park network be set up. The SBI can offer technical assistance and best practice examples to a wider audience thus achieving a much wider reach and providing business development assistance beyond the incumbents of the incubator.

Further work is needed in canvassing buy-in from key stakeholders, establishing accurate financial requirements for set-up and seeking project funders.

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1. Background

Guinea-Bissau gained independence from Portugal in 1973. The country's development was set back during a period of civil unrest in 1999/2000 and it is still in the infancy of democracy and sustained economic development.

A number of international development organisations are currently operating in Guinea-Bissau, including international players such as the World Bank, SNV (Netherlands Development Organisation) and various UN agencies. Locally based and small-scale national actors are also working alongside these international players. One such organisation – The International Peace and Prosperity Project (IPPP) (Canada) - was heavily involved in the election process and is now directing some attention to commerce.

In a recently formulated national Action Plan for Peace and Prosperity in Guinea-Bissau, the need to establish Small Business Incubators was identified.

Small and medium-sized enterprises (MSEs) are considered to be one of the principal driving forces in economic development. They stimulate private ownership and entrepreneurial skills, they generate employment, help diversify economic activity and make a significant contribution to exports and trade as well as stimulating competition and innovation through the economy as a whole.

The Catholic Bishop of Bissau has been instrumental in the scoping of this report. Particular concerns include providing assistance to young people to get started in business and create employment opportunities and in targeting business development in the agricultural sector.

This study was commissioned to investigate the potential for Small Business Incubator establishment and this report results from the initial in-country feasibility study.

2. Terms of Reference

Practical Action Consulting was commissioned by IPPP to undertake a twelve day assignment to address the following issues:

- What is the definition of a “small business” in Guinea-Bissau (i.e. annual sales, personnel, examples of services or products)?
- What needs (i.e. capital, technical, professional expertise) do these small businesses have?
- What would a Small Business Incubator provide to small business, in what way, and for how long?
- Are there other needs that must be met in addition to the support of a Small Business Incubator in order to foster successful small businesses?
- Are there adequate resources in Guinea-Bissau to meet those needs?
- Does it make business sense to establish one or more Small Business Incubators in Guinea-Bissau?
- What would it cost to establish a Small Business Incubator in Guinea-Bissau?
- Are there government-based, private sector, UN or international nongovernmental organisations that might partner (and with whom?) or support the establishment of one or more Small Business Incubators?
- What Small Business Incubator Model is recommended?

The full TOR is shown in Appendix 1

3. Information Sources

The information and data contained in this report have been drawn from a variety of sources including desk research and a range of in-country meetings. The majority and strongest of these pieces of evidence originate from information collected on the ground.

3.1 Desk Research

Initial desk research on business incubator operation within a developing country context has been pulled together from a range of sources such as the International Labour Office (1), the Institute for Development Policy and Management (2)(3) and the World Bank (4).

3.2 In-Country Institutional Meetings

In-country office based meetings with established organisations were held during the period 21 – 27 June 2006. These amounted to 11 in total and are detailed in Appendix 12.2. The organisations were;-

- i) Catholic Church
- ii) BRS Bank
- iii) CCIA (Chamber of Commerce)
- iv) CACI (Chamber of Commerce)
- v) CENFA (National Training Institute)
- vi) World Bank
- vii) Fundeii (NGO)
- viii) Minister of the Economy
- ix) PDRRI (Programme for Demobilisation and Integration of Ex-combatants)
- x) Enterprise Works (NGO)
- xi) MFPT (Ministry of Works)

3.3 In-Country Business Meetings

In-country site meetings with operational businesses were held during the period 21 – 27 June 2006. These amounted to 9 in total and are detailed in Appendix 12.2. The operational businesses were;-

- i) Bula - Mechanics Business
- ii) Bula - Carpentry business
- iii) Cantchungo - Centre for support of Micro and Small Enterprises (host to 8 businesses)
- iv) Vehicle mechanics business (within Cantchungo SBI site)
- v) Carpentry business (within Cantchungo SBI site)

- vi) Metal work business (within Cantchungo SBI site)
- vii) Cantchungo - Coajoq (Agricultural Cooperative)
- viii) Bissau - Carpentry and furniture business park (discussions with 5 separate businesses)
- ix) Bissau - Retail arcade (5 businesses)

3.4 In-Country Training Institutions

In-country site meetings with training institutions were held during the period 21 – 27 June 2006. These amounted to 4 in total and are detailed in Appendix 12.2. The institutions were:-

- i) Bula - CIFAB training institutions Bula
- ii) Bissau - CIFAB training institutions Bissau
- iii) Bissau - Cashew training centre
- ix) Bissau - Cashew processing centre

4. Small Businesses in Guinea Bissau

4.1 The Economy

Guinea-Bissau is economically the smallest of the 15 countries that make up the Economic Union of West African States (ECOWAS) (5) with GDP of \$0.2 billion and a population of 1.2 million. The main (and near only) export is cashew. FDI potential is therefore limited in the short to medium term placing great reliance on commerce from within.

The majority of business operations in Guinea Bissau are informal – according to one of the chambers of commerce (CCIA) 90% of businesses are informal – these in theory only require a licence to operate and hold no formal bank account. This makes it difficult to find solid information on scale of business activities.

4.2 Sectors

The main macro sectors in Guinea-Bissau are agriculture (particularly cashew) and trade activities. Business numbers in sectors are therefore hard to ascertain but CCIA represent over 2000 business associations. The split in the Guinea-Bissau economy according to CCIA is:

Trade/Service 60%
Agriculture 20%
Construction 5%
Fisheries 5%
Other 10%

Small businesses operate mainly in carpentry, mechanics, agricultural production (cashew, fruit, honey,) horticulture, fisheries, charcoal and other trade activities.



Photo 1 - A small carpentry business in Bula



Photo 2 - A small mechanics business in Bula

The production climate for cashew offers comparative advantage as does the organic/natural status in agricultural products. This should and is being leveraged to a greater extent. There are two large scale cashew processing facilities now in operation.



Photo 3 - Cashew processing in Bissau



Photo 4 - Cashew grading in Bissau

Fundeii has a high level of involvement and is a potential partner for the development of Small Business Incubator (SBI) (See section 9).

Aside from the large cashew operations that were of high quality, the small businesses visited generally produced products showing average workmanship skill levels. There are opportunities for skill elevation (particularly in final finish). This will help add value and open up additional market outlets.

4.3 Definitions of Small Business

Defining small businesses in Guinea-Bissau proved difficult due to the extent of the informal economy and associated lack of recoding or documentation.

None of the Government departments visited were able to provide any information to assist.

One context specific definition was found – from Fundeii.

Table 1 - Fundeii definitions

	Micro Business	Small Business	Medium Business
Annual Turnover	<6,000,000 CFA (<\$12,000)	<30,000,000 CFA (<\$59,000)	>30,000,000 CFA (>\$59,000)
Permanent Employees	<10	<20	>20

In addition the results from this study, when pooled provide a guide as to the representation of small businesses in operation. The full details are shown in section 12.3, Table 7.

Table 2 – A summary of small businesses from this study

	Turnover	Employees	Business types
Range	1.2 to 10 million CFA per year. (\$2500 to \$20,000)	1 to 12	Carpentry, Metal Work, Mechanics, Furniture, Agri services, Retail
Average	3 million CFA (\$6000)	3	

The study sample represents data from 21 real businesses.

Additional evidence from service providers to the small business sector can be seen in section 12.3, Table 8. Details from the BRS bank (finance provider to the sector) and from the chambers of commerce indicate averages of 5 employee numbers and turnovers of around 10 million CFA (\$20,000).

It is fair to conclude that the majority of small businesses in Guinea-Bissau are very small. By far the majority of businesses in Guinea-Bissau would fall into the micro business category with some growing into the small category. A larger survey is needed to ascertain the distribution but it would seem probable that a very high percentage of total businesses (+90%) would have less than 10 employees (average 2 – 3) and would have turnovers less than 10 million CFA per annum (\$20,000).

These business types are typical of those encountered during the study and will be taken as representative. These businesses will be grouped under the title of “Micro and Small Enterprises” (MSE’s) for purpose of this report.

4.4 MSE Issues Identified

Structured questioning and first hand experience revealed a range of identified issues that affect MSE’s in Bissau. The detailed log of these is recorded in Tables 7 and 8 in Section 12.3.

The main issues identified were:

- Access to power;
- Lack of available finance;

- Bureaucracy and administration in setting up the business. Understanding the requirements such as business licences, property rights etc.;
- Access to basic equipment. Particularly relevant to production businesses such as carpentry and metal work;
- Lack of support and advice in business management and basic business planning;
- Lack of planned marketing and assistance in market development. Particularly relevant to rural businesses needing to access the Bissau and export market place.

The above can be grouped into three main issue areas, namely power, finance and business support/administration.

Power provision varied from business to business. Some had no access at all, others had a system whereby an external power source was utilised at certain parts of the production process. In other cases a pooled generator was provided and in others individual generators provided power on demand. There is not provision of regular power through a national grid in Guinea-Bissau.



Photo 5 – Carpenters in Bissau working with hand tools



Photo 6 – A generator in a secure container used by a mechanics business in Bula

Businesses cited finance as a major factor. It was difficult to discern where most businesses gained capital from. It is likely that at this business size the majority of financing is likely to be in the form of debt, apart from equity invested by business owners themselves. The source of any debt is likely to derive mainly from family members although there is a growing formal lending sector (see 4.5).

For small businesses the first two years are critical for survival since mortality rates are highest in this period. This is often exacerbated by the relatively low barriers to entry in the informal sector – thus large numbers of MSE's start, competition is high and the least efficient fail. No information was available on business failure rates – this would have been useful particularly if the reasons for failure were identified.

4.5 Progress and Current Developments

There are some encouraging recent developments within the three main issue areas previously described.

There is a huge regional hydro scheme (OMUG) in development with dams in Senegal and Guinea. Guinea-Bissau needs to put infrastructure in place to

capture this. Planning is underway with World Bank & European finance. However it will be several years (estimated as ten) before reliable power is available.

The BRS Bank in Guinea-Bissau (Banco Regional de Solidariedade) was created from within the Economic Union of CFA countries and inaugurated in December 2005. The Bank was targeted at supporting private sector businesses and is now providing a source of funding for small businesses as well as some business support and planning inputs.

The criteria for money lending are set out in section 12.4 and appear to be reasonably accessible to SME's.

The Minister for the Economy set out several recent advancements that should assist in reducing bureaucracy and in stimulating business in general. These advancements include: A secure investment guarantee from the Portuguese government to encourage external investment; changes in the rules of land law; new labour laws; a centralised administration centre for new business registrations; and commercial tribunals and arbitration centres in place for business dispute resolutions and tariff free zone for local production.



Photo 7 – Minister of the Economy Issuf Sanha and Greg Beeton meet during this study.

5. Business Incubators

5.1 General Descriptions and Models

Business incubators, innovation centres, and industrial parks have shown themselves to be effective instruments for assisting entrepreneurs in starting a new business, nurturing young enterprises, and helping them to survive during the start-up period when they are most vulnerable.

Business incubators involve some kind of premise (real estate) infrastructure where national or local governments, municipalities, or groups of large-scale enterprises provide on-site workshop office and administrative services, and assistance in various areas such as technical support services, access to financing, counselling, marketing, access to equipment, management assistance etc.

One definition given by the European Commission is,

"a business incubator is a place where newly created firms are concentrated in a limited space. Its aim is to improve the chance of growth and rate of survival of these firms by providing them with a modular building with common facilities (telefax, computing facilities, etc.) as well as with managerial support and back-up services. The main emphasis is on local development and job creation." (6)

A further definition from the US National Business Incubation Association defines the business incubator as,

"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 leave the program financially viable and freestanding." (7)

Managed workspace is a property complex that provides a base from which businesses can trade. This set up also provides core services such as shared office services, equipment and security. True Incubators are different in that they also provide and encourage:

- Selection – entry into the incubator is often competitive and on the basis of a viable business plan.
- Nurturing – Incubators provide a proactive support service to businesses. This includes assistance with planning and budgeting,

annual business assessments against business plans, on demand mentoring services etc.

- Graduation – The essence of the incubator model is that businesses move on after a defined period allowing a new business to take advantage of the incubator environment.

Table 4 - Summary of similarities and differences between Managed workspace and business incubator

Managed Workspace	Incubator
Provide premises to trade	Provide premises to trade
Offer shared services	Offer shared services
Open ended tenancy	Short term tenancies
Non selective entry	Selective entry
Commercial rents	Subsidised rents
Minimal business support offered	Mentoring and business support services compulsory

5.2 General Services Offered by Incubators

The following are general services offered by Incubators. Applicability to the climate in Guinea-Bissau will vary. In general physical requirements will be more applicable at the outset.

- Physical infrastructure - Office and or workshop space on an affordable basis. Having a registered business place is the first essential step in business start up.
- Secretarial services - Secretarial services are provided for the newly established small entrepreneur.
- Telecommunications and information technology services - Access to telephone, telefax, E-mail, and Internet is a big opportunity for a start-up business.
- Business planning, assistance, resources, counselling services - One of the main tasks of a business incubator is to help make a business plan and to advise on bookkeeping and filling in tax-forms.
- Advertising and marketing services - Provides the list of potential suppliers, businesses, potential investors, distributors.
- Financial advice services - Advising businesses on their funding and investments as well as on their daily financial transactions.

- Training services - Teaching market economic principles, professional and technical skills.
- Know-how services - The business incubator helps its tenants through the legal processes linked to the use of licences and know-how.
- Network services - It is important for a business incubator, in particular for a virtual business incubator, to have links and relationships with other organisations which can promote and sustain the interests of its client businesses.
- An industrial infrastructure - A business incubator may also provide the basis for industrial activity by supplying access, water, electricity, telecommunication, buildings and industrial machines.
- Aftercare services - The business incubator prepares tenants for outside work since the graduation policy requires tenants to move from the incubator after a certain period of time. Successful graduates are financially viable and freestanding when they leave the incubator, usually in two to three years.
- Security services.

5.3 Ownership

The ownership and hosting of a business incubator can be through a number of methods:

A non-profit business incubator runs with the help of a community or an economic development foundation. A private or for-profit incubator is usually owned by a business individual, venture capital investment groups or real estate development partnerships. A business incubator can be hybrid i.e. a joint effort between a local and central government, a non profit organisation and a private organisation. A partnership business incubator takes advantage of both the expertise of the private sector and the use of public funding.

A business incubator may operate as an affiliation of a university. The purpose of a business incubator connected to a university is to help in the development and transfer of new technology.

There is no simple incubator model that can be adopted. In the Guinea-Bissau situation it is likely that a business incubator will be formed through external funding but should aim to be self-financing over time.

5.4 Advantages of the Business Incubation Concept

Business incubators have been shown to aid business survival, community development, job creation, survival for small businesses, competitive aspects due to clustering, and linkages between businesses.

These are all benefits that would apply in Guinea-Bissau.

5.5 Additional Needs to Supporting a SBI and Required to Ensure MSE Development

To develop entrepreneurship and MSEs an enabling environment is needed across three main levels that affect the business environment:

- Strategic level (policy making);
- Institutional level (support institutions);
- Enterprise level (entrepreneurs and business entities).

Appropriate policy making is gradually taking place in Guinea-Bissau, the Minister of the Economy was at pains to stress the steps taken to support trade and encourage foreign investment. Positive affects on the ground will take time to be apparent.

There are a number of support institutions in Guinea-Bissau. A number were canvassed during this study (Table 8). Some of these institutions are producing beneficial impacts and outputs that can be incorporated into a SBI design.

This study concentrated on the enterprise level and will recommend further support in this area. The following table shows a theoretical development chain for a MSE at enterprise level and summarises where the apparent gaps are at present.

Table 5 – MSE Development Chain

		Status in GB
Stage 1	Motivated human capital	Ample supply
Stage 2	Training in business and technical skills	Provided by CIFAB, CENFA, FUNDEI etc
Stage 3	Incubator to nurture stage 1 businesses	This study recommends set up
Stage 4	Sustainable business housing	Missing

Stage 4 is vital as a recognised flaw in all incubator models is the difficulty in ejecting businesses after the agreed incubator term. To assist this, the provision of a business park or similar, fundamentally providing work space would be beneficial.

In conclusion this study has shown that the most important requirements and needs from MSE's that can be provided in a SBI form are:

- a) Reliable power source;
- b) Assistance with finance and provision of capital intensive equipment;
- c) Market development;
- d) Assistance with business skills development;
- e) Time to allow for reserves to build up and business to reach critical mass – thus reducing risk.

6. Resources Available in Guinea-Bissau

Individual business development initiatives have historically received funding and support from a range of sources. A good example is the COAJQ agricultural cooperative in Cantchungo. Its supporters include: Religious organisations in Guinea-Bissau; the FAO; the Catholic Church; Action for Development (ONG, AD) – a national NGO; Ministry of Agriculture; Dutch Embassy; and Catholic organisations in Portugal and Italy.

These resources broken down into groups are described in more detail.

6.1 Government

There is limited Government assistance at present and none that is directed at nurturing business development.

Within the Ministry of Finance, the Department for Promotion of Private Enterprise (DPIP) allegedly provides support for higher level businesses. Further investigation is required to ascertain if this support is available for MSE's.

MFPT (Ministry of Works) is currently developing a training school (Brazilian funded) for training in plumbing, carpentry and electrics with future courses planned in radio, TV, aircon repair and needlework. This will train 300 students a year on 3 month courses. There is a recognised gap for graduates in this training. There is an opportunity for discussions with the Ministry (Alexandre da Silvados Santos, General Director Employment, Professional Training) for follow-on options to the training centre in which SBI design could form a part.

The MFPT presented a detailed paper entitled “Entrepreneurship and Managerial Capacity Reinforcement”. The focus of this paper is on “strengthening the managerial culture of candidates to promoters of a business and an almost inexistence and little coordinate training offer in basic management of small businesses”.

The interventions proposed to address this include:

- Short terms training in business management;
- Introduction of " individual development and management of small businesses " discipline in the last years of secondary schools;
- Sensitization/animation through theatre shows and plays programs of radio and TV.

It is not clear how/when/if these actions will happen.

6.2 Institutions

CENFA (part of Ministry of Education) currently has 729 students and provides training to high school students as well as vocational training. Feedback from the Director indicated that the majority of graduates were employed in the State and private sectors – only a small minority had started their own businesses. Detailed Information on ex-students was not available.

CIFAB Bula and CIFAB Bissau are training institutes funded by the Catholic Church. These institutes produce skilled individuals ready to enter into business. The catholic Bishop of Bissau is strongly attached to these institutes and there are good opportunities for both utilisation of skilled graduates and hosting of a SBI. Further details can be found in section 6.5.

The two chambers of commerce in Bissau (CCIA and CACI) offered support for a SBI initiative. CCIA offered use of facilities to start SBI going and for additional research and planning. CACI are growing fast and have 37 associations as members (numbers unknown but one association in Cantchungo has 427 members). They have been involved with FAO in setting up cooperatives mainly in the Ag sector. CACI offered to provide technical advice to a SBI.

Enterprise Works could offer technical assistance in agricultural and general small business initiatives.

FUNDEI is a well organised and progressive organisation funded by Swedish SIDA. They are already funding the development of cashew processing and are also looking to develop a business park. This park will provide operational space for cashew related businesses (juice and by-products) and will be sited alongside the cashew processing plant in Bissau. There is space there for

further developments and opportunities to discuss joint working/developments with FUNDEI. Currently a study is underway into the best model for the incubator/business park. This will be available at the beginning of August and could form an interesting partner to this report.

6.3 International Donors

There was insufficient time to approach donors in Bissau within the study. However conversations with Fundei and Josue (World Bank project) indicated that there are a number of international donors operational in Guinea-Bissau. The most applicable to this project area appeared to be SNV (Dutch). However, FUNDEI are looking at funders options for their SBI design project and are approaching FAO, WB, UNDP, UNICEF and WFP. It would be wise to canvass FUNDEI to ascertain developments.

6.4 CBU's

There are numerous community-based organisations and local NGO's in existence. Macaria Barai from CACI is to provide a list and description of these organisations.

6.5 People

There is a skilled and semi skilled resource available in Guinea-Bissau. The most obvious resource revolves around the graduates from the CIFAB institutions.

CIFAB Bissau currently has 250 students across 3 years of study. Subjects include mechanics, construction, electronics, accounting and computer science. An increasing number are enrolling for short 3 month courses particularly computer science where 90% of attendees are women.



Photo 8 – Computer training at CIFAB Bissau

CIFAB Bula has approximately half the students of Bissau across courses in mechanics, carpentry and agriculture.



Photo 9 – Metal work training CIFAB Bula



Photo 10 – Woodwork training CIFAB Bula

To date there has been no official follow-on mechanism for students leaving the institutions to get started in business. The range of activities graduates enter into is as follows:

Association work	10%
Employed	50%
Independent activities	40%

There has been a single association formed from CIFAB Bissau that appears to act as a facilitator for construction work – being the main contact point from which individuals are pooled into teams to accomplish mainly construction

work. This association has continued support from CIFAB in the form of technical and business planning expertise.



Photo 11 – CIFAB graduates in own business

7. SBI Design

7.1 Lessons from Existing Schemes

The only true business incubator model in Guinea-Bissau is that of the Cantchungo based “Support centre for micro, small and medium industrial companies for the Northern Province” (UPAA).

This scheme has space for 8 MSE’s and has been near fully occupied since its set up over 20 years ago. Whilst the intended operation as a true incubator with solid implementation has failed due primarily to incumbent businesses refusing to move on or pay rent resulting in a withdrawal of management support. The site is now being used as a rental business park and not an incubator.



Photo 12 – UPAA SBI

The situation has now spiralled – original rents were not paid, central services were reduced to compensate (security, telephone/fax/business support), rents were reduced further, businesses then saw less value in the reduced offering, still refused to pay and now refuse to leave the premises as well.

There was also an initial credit scheme – these monies have not been repaid with approximately 40 Million CFA owing (\$80,000)

There appears to be difficulties in the quality and validity of original contracts making it difficult to evict unwilling businesses.

The facilities at this site are potentially good – there are good buildings and storage sheds, a central power generation, opportunities for market development, pooling of raw material purchases etc.



Photo 13 – Metal work business tenant SBI UPAA



Photo 14 - Storage facilities SBI UPAA

Originally there were six staff running the project, this figure is now down to three. There is little requirement for this staff compliment with current low level operations.

In addition to true SBI previously described there are examples of less formal shared facilities eg. the furniture sellers in Bissau, retail arcades etc. These operations are really a variation of managed work space – with less emphasis on service provision and more on provision of physical space with some associated shared services (workshop, toilets, secure storage).



Photo 15 – Bissau furniture sellers and shared sales facilities

7.2 Main Issues to Address

Some clear pointers can be drawn from the existing schemes that will assist in planning for any new SBI development:

- Buy-in to the specifics of the SBI concept must be achieved from all incumbents;
- An integrated systemic approach must be built in to ensure a flow into and out of the SBI;
- Value addition from the SBI must be achieved beyond the incumbent businesses i.e. technical assistance to a wider business community, information sharing through a best practise facility etc.;
- Sustainability of the incubator concept must be ensured to mitigate evolution into rented workspace;
- Risk involved in financial schemes and defaulting tenants must be mitigated through correct contractual management;
- One of the aims of the SBI should be to assist businesses to reach critical mass within a realistic timeframe to ensure throughput.

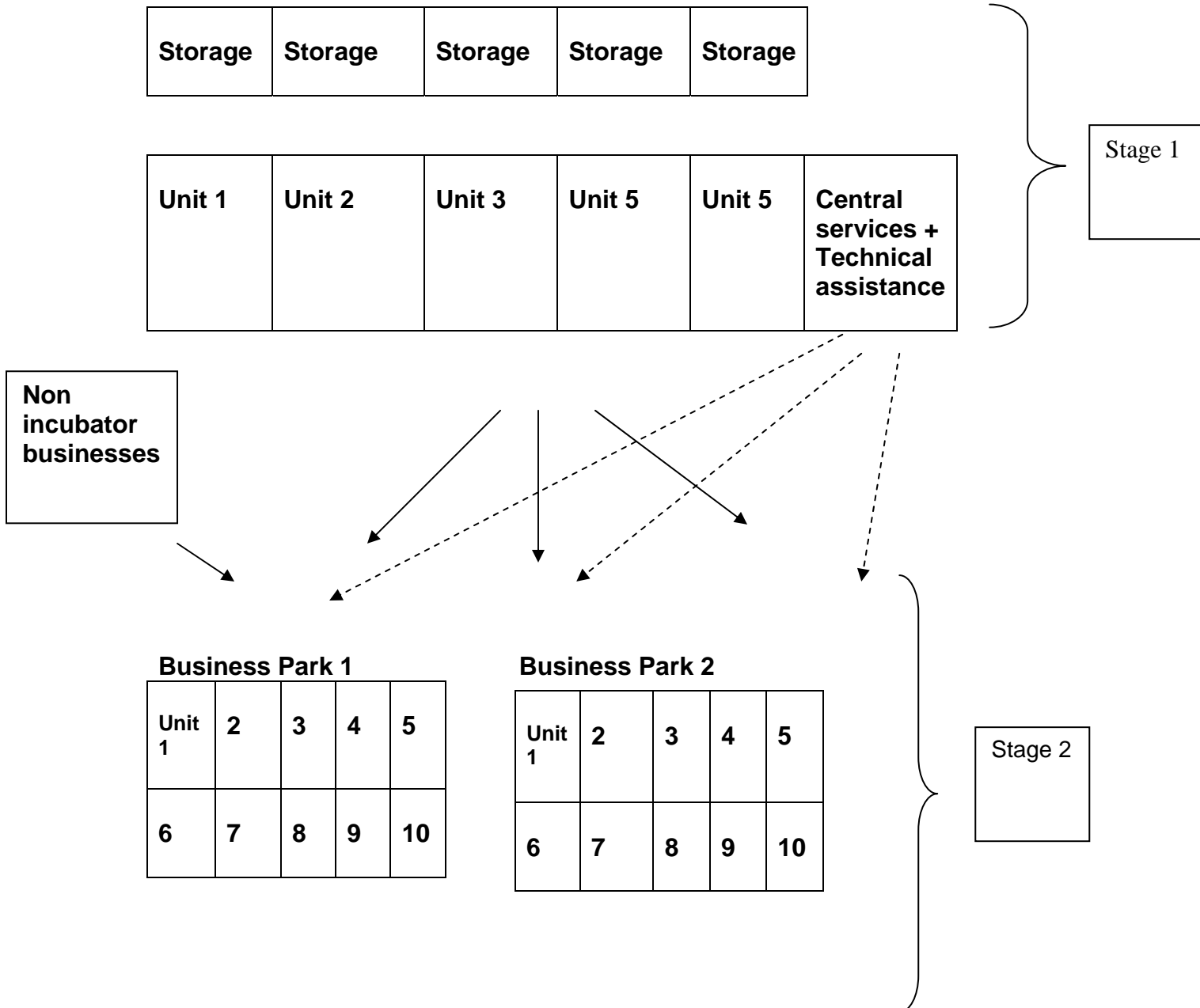
7.3 Design and Discussion

In formulating a design for a SBI in Guinea-Bissau consideration has been given to recognised and successful SBI concepts as well as to the on the ground situation in Guinea-Bissau. Fundamentally the basic concept and design as employed in UPAA is still sound as a guiding principle but

significant add-ons in design and structure are required to ensure successful implementation.

The design proposed is an integrated model. This consists of the set up of the SBI in stage 1 followed by the development of business parks and roll out structures in stage 2. Both stages can be addressed in isolation for the purposes of set up but it is recommended that impact and sustainability will be severely reduced if both are not implemented.

SBI Integrated Model



The stage one design consists of an incubator unit of 5 basic incubators plus storage facilities. Integral to this cluster is an administration and management unit. The services provided will be those required by any basic SBI as these are equally applicable to the Guinea-Bissau situation. These divide into physical, service, managerial and knowledge based as described in section 5.2.

The actual structure of the stage one model can have multiple variations but the basic concept remains the same. Options within design include a) supply

chain clustering where businesses forming the complete supply chain are taken within the incubator eg. for cashew businesses in storage, processing, packaging, trading and shipping. All businesses then graduate at a whole thus moving out as a complete cluster or b) a whole range of disparate units are taken on and graduate at differing times. This allows for greater flexibility and greater teaching potential.

The stage 2 design consists of the provision of physical work space. This is best formulated into a business park type arrangement to allow for clustering to promote market development.

Variations on this stage 2 design may include provision of basic machinery, financial schemes and technical assistance (TA) provided from the base incubator.

Financial design could be incorporated to finance the basic costs of the incubator through income from TA and rental from the business parks.

A SWOT of this integrated design concept is shown below:

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • Integrated system • SBI system nurtures 1st stage businesses • Gives opportunities for non SBI graduates to integrate in business parks in stage 2 • Staged set up spreads costs 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Requires wider buy in from stakeholders • High start up costs
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Increasing the number of business parks • Income generation from business parks and TA fund the SBI 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • SBI becomes another business park through poor management or lack of concept buy in

7.4 Examples of Business Types that Fit with the Design

Service businesses

- Construction Coordinator – A service business managing a database of skilled construction artisans. The business would be responsible for marketing and finding work, sourcing and contracting staff, managing the projects, QA, financial control, delivery to timeline etc.
- Computer repair and servicing business – build on CIFAB Bissau computer graduates.

Production businesses

- Small manufacturing producing storage structures for cashew. The Cashew promotion centre indicated that 500-1000kg of raw cashew could be processed by the average family per annum. If storage could be manufactured in 1000kg sizes one container per family would be a logical application and this concept could form a business plan.
- Carpentry and metal work businesses where basic machinery provision would be vital and markets could be developed whilst in the nurturing environment of the SBI.

7.5 Additional benefits from the design

The intention of the design is to allow for flexibility in both operation and in outputs. Fundamental to the concept is the aim for sustainability and self-funding as well as the maximisation of the facility as a training and best practise resource.

Specific benefits could be:

- Use as a training resource – an open book policy for incumbents would allow students of CIFAB, CENFA etc to better understand and prepare for business operation in the commercial world;
- Sector templates (eg cashew, mechanics, carpentry, horticulture) and standard business models could be produced. These could be purchased with associated support as a package. These business templates include budget and internal book keeping templates, pre prepared examples of budgets, marketing plans etc. They could be produced annually thus dynamic to reflect actual market conditions;
- Best practise modelling could be employed where external businesses monitor performance against standards set by the SBI ;

- Students who do not make the selection process for the incubator and others can use the business templates/models to set up on own. They don't have the advantage of the SBI but can go straight to the business park (shown on diagram). Advantage is that they get "dynamic" information from SBI;
- SBI can provide TA to the associated business parks. Income could be generated from this activity.

8. Financing of Designs

8.1 Cost Estimates

Finding accurate costing information within Bissau proved very difficult. Josue searched within the Ministry of Works and other sources and concluded that costs vary greatly according to the season. In the rainy season the cost of cement is high (there is no construction so no import of cement) and the cost of man power also (people dedicate more time to agriculture). Any figures available varied so greatly that sensible estimates could not be drawn. This is an area where further time and research is required.

To produce cost estimates for this report the most accurate route is to extrapolate from estimates produced by the COAJQO information. The COAJQO cooperative is planning an expansion and their costings for office construction provides one guide to construction costs. This information has been well researched and gives confidence in accuracy.

Costs for the construct of a single office unit (exclusive of land purchase):

Table 6 – Office construction costs

Materials	Total cost (CFA)	\$US
Doors	900,000	
Roof zinc	1,400,000	
Wood	1,300,000	
Steel for structure	200,000	
Paint	150,000	
Sand	500,000	
Labour	1,500,000	
Total	6,000,000	12,000

To establish an incubator, central costs would also need to be included.

Table 7 – SBI central costs

Item	Total cost	\$US
Generator + solar panels	3,000,000	6,000
Water pump and pipework	1,500,000	3,000
Security fence	1,000,000	2,000
Office furnitures	1,000,000	2,000
Manager + administration (3 staff)	2,500,000	5,000
Total	9,000,000	18,000

These estimates have to be scaled up to an incubator where 5 business spaces were provided together with storage facilities:

Table 8 – Total incubator costs (excluding optional machinery provision)

	CFA	\$US
5 Office spaces	30,000,000	
5 Storage facilities	15,000,000 (50% office cost)	
Central costs	9,000,000	
Land purchase (est)	10,000,000	
Total	65,000,000	130,000

This gives one estimate based upon a basic Incubator. The provision of machinery, equipment and of storage facilities would be supplemental if this route were taken. The additional costs associated with equipment provision to 5 businesses could amount to 50 million CFA (\$100,000). This would double the requirement for capital.

From these calculations it can be concluded that a requirement of between \$130,000 and \$230,000 (equipped) would be required to set up a SBI to accommodate 5 incubator businesses.

Stage 2 costs would be in addition at a later date (year 2+). Using the above information basic workshop/office space for 10 graduating businesses would amount to approximately 60,000,000 CFA (\$120,000).

Further research is required to produce accurate costings for the chosen design.

8.2 Funding Options

The concept of the SBI design is that it should be self-financing after a set up period. This funding is primarily required for stage 1 and later stage 2 set up.

This integrated approach would be most effectively set up if stage 1 were financed through external funding on the understanding that stage 2 would be provided for by internal i.e. state funding.

No direct approaches for funding were made during the study. Discussions with a range of actors did conclude that funding sources for the implementation of the SBI may be secured from The Catholic Church (Caritas Portugal, Dutch + Italy), SNV, the World Bank and with or through FUNDEI (SIDA).

9. Other Factors to consider

9.1 *Hosting and Ownership*

The options for the physical location of a SBI are closely linked to ownership and hosting. This study has shown that there are synergies to be grasped through location (and therefore hosting) with CIFAB and also with the new FUNDEI project. These would be preferable to a new build as costs would be lower if existing site areas could be utilised.

The stage 2 developments would be better suited to new site development – ideally market specific and would need to be investigated further closer to implementation.

There were no opportunities unearthed aligning with other traditional hosts of SBI's such as Universities or existing business parks.

9.2 *Institutional Support*

There seems little opportunity for financial support from any of the Government or business institutions interviewed during the study, though there is likely to be development and business support. This may take the form of adoption by one of the chambers of commerce or some other form of close working relationship..

9.3 *Management*

Vital to the sustainability of the SBI is solid management from the outset.

9.4 *Pilot or Roll Out*

The issue of scale is a dilemma for the design. A SBI that hosts only 5 businesses for a 2 or 3 year period is going to make little impact on the MSE economy of Guinea-Bissau. To go large with multiple or larger SBI's will only be possible with huge investment that is unlikely to be forthcoming. Thus the design proposed endeavours to find the middle ground between cost and impact – consisting of a core and then different ways of outreach and mainstreaming.

10. Conclusions and Recommendations

This study has assessed the climate for MSE's in Guinea-Bissau and concludes that there is an identified need for MSE support in Guinea-Bissau post - training institutions and to provide opportunities for young business individuals. This report recommends that this is implemented.

The set up of a SBI in isolation whilst providing a short term "fix" is not the solution. SBI design must be part of an integrated approach.

The design within this report should be considered as an option for the establishment of a SBI. To take this forward further work is required specifically to:

- Investigate integration with existing or planned schemes – specifically FUNDEI and the existing centre in Cantchungo;
- Seek feedback from key stakeholders on the content and conclusions for this report ;
- Produce more detailed financial plans;
- Seek support and buy-in from other international donors and in country organisations;
- Produce and design and operational plan for the SBI.

11. References

- (1) Sievers et al, *Business Centres for Small Enterprise Development*, ILO Geneva, SEED Working paper 57.
- (2) Duncombe R, Heeks R, 2001. *Information and Communication Technology – A Handbook for Entrepreneurs*. IDPM University of Manchester, UK. Version 1.
- (3) Green C et al, 2002. *How do small firms in developing countries raise capital – evidence from a large scale survey of Kenyan micro and small scale enterprises*, IPDM Manchester.
- (4) World Bank, 2003. *Doing Business in 2004 Understanding Regulation*. Publications www.worldbank.org/ecommerce/catalog/product_id = 138480
- (5) www.eia.doe.gov/cabs/ecowas.html
- (6) Ministry of Trade and Industry, *Best Practices in Incubator Infrastructure and Innovation Support*, , Final Report of the Seminar held on 19-20 November 1998 in Espoo, Finland.
- (7) National Business Incubation Association, 1999. *Principles and Practices of Successful Business Incubator*,

12. Appendices

12.1 TOR

Small Business Incubator in Guinea-Bissau: A Feasibility Study

Need:

In a recently formulated National Action Plan for Peace and Prosperity in Guinea-Bissau, the need to establish Small Business Incubators was identified. As a first step, the IPPP wishes to engage a consultant to conduct an in-country feasibility study. Based on the feasibility study, the IPPP will seek further resources for the initiative. The study will consider at least the following issues:

- What is the definition of a “small business” in Guinea-Bissau (i.e., annual sales, personnel, examples of services or products)?
- What needs (i.e., capital, professional expertise, technical) do these small businesses have?
- What would a Small Business Incubator provide to small business, in what way, and for how long?
- Are there other needs that must be met in addition to the support of a Small Business Incubator to succeed in fostering successful small businesses?
- Are there resources in Guinea-Bissau to meet those needs?
- Does it make business sense to establish one or more Small Business Incubators in Guinea-Bissau?
- What would it cost to establish a Small Business Incubator in Guinea-Bissau?
- Are there government-based, private sector, UN or international nongovernmental organizations that might partner (and with whom?) or support the establishment of one or more Small Business Incubators?
- What Small Business Incubator Model is recommended?

Method of Study:

1. Background research summarized on other experiences of establishing and operating Small Business Incubators in developing countries.
2. With logistical support from the IPPP conduct a five-day study in Guinea-Bissau, meeting with: the two Chambers of Commerce; financial institutions; UN, WB, EU, SNV and other key agencies; relevant government officials, especially Minister of Commerce and Minister of Education; the Roman Catholic Bishop and religious head of the Islamic community (who are engaged in training young adults for business); and several private sector business people currently operating businesses in GB.

Deliverable:

A written report for IPPP, with recommendations, suitable for adaptation to a proposal for funding to be submitted to donors.

Timeframe:

Study to be completed by June 30, 2006 and the submission of report by July 15, 2006

Budget:

Professional Fee: Based on an allocation of 12 working days at \$600/day = \$7,200 USD.

Travel and Expenses: As per IPPP pre-approved rates, estimated to be \$6000

= \$13, 200 Total Cost

Payment Terms:

The total value of this contract payable to the consultant is \$7,200 in professional fees + reimbursement for expenses.

Note: 50% of the Professional Fees to be paid at start of contract and balance upon receipt of all deliverables¹.

Please keep and submit all of your receipts in order to be reimbursed for your expenses².

By signing below, both parties agree to abide by the terms of these ToR.

SBI Consultant's Signature

Date



IPPP Signature

June, 2, 2006

Date

¹ Note, failure to produce deliverables within the specified timeframe may result in some or all of the remaining balance of the contract being withheld until they are submitted. Likewise, payment may be withheld for deliverables that do not meet the minimum requirements as specified in this ToR.

² Note, all claimed expenses must be supported by proper receipts – failure to do so may result in the delay or nonpayment of those expenses.

12.2 Meeting Schedules

Meeting Timetable Guinea Bissau 21 – 17 June 2006. Greg Beeton

	20 th June Tuesday	21 June Wednesday	22 June Thursday	23 June Friday	24 June Saturday	25 June Sunday	26 June Monday	27 June Tuesday	28 June Wednesday
7	Left home for Heathrow				Travel with Bishop to Bula				Missed Paris connection
8	Working whilst travelling all day		Travel to Bula		Mechanics Business			Working in Hotel	
9			CIFAB – Father Gissepe Negro	CIFAB Bissau – Emiliano Gomes	Carpentry Business		Bissau Cashew Training Centre – Filinto Vaz Martins		
10			↓	↓	Travel to Cantchungo	Bisau Carpentry and Furniture sellers	Bissau Cashew Processing Centre		
11			Travel Bisau	CENFA (training institute) – Marcelina Santos	↓	Bisau Retail Arcade	PDRRI (Programme for demobilisation and integration of ex combatants)	Meet Josue	
12		Arrive at Airport Bissau	BRS Bank – Henrique Horta dos Santos		COAJQ (Agri cooperative) -	↓	FUNDEI (Foundation for promotion of entrepreneurial business) – Califa Seidi		
13		Visa admin.	↓	MENES – Cancelled	↓		↓	↓	
14		Hotel		Western Union/CA CI – Macaria Barai	Centre for Support of Micro and Small Enterprises – Jose Mendonca	Working in Hotel	MFPT (Ministry of Works)	Hotel	
15	↓	Meet Josue	Enterprise Works – Mario Alfredo Mendonca	↓	↓	↓	Minister of the Economy – Issuf Sanha	Airport	↓

16	↓	↓	CCIA (Chamber of Commerce) – Saliu Ba		Travel back from Cantchung o	↓	Debrief Geraldo	↓	↓
17	↓	Meet Intepreter (Geraldo)	↓		↓			Fly out	Arrived Home 4 pm
18	Arrived Novotel Dakar 10 pm	Meet Bishop Don Jose Camnate and Josue and Macaria from CACI			↓				

12.3 Small Business Survey Information

Table 7 - Small business information according to actual businesses surveyed

Business Name	Activity	Location	Employees	Turnover CFA/year (US\$/year)	Issues
Mechanic Workshop	Mechanics	Bula	3 permanent 3 part time (business supports 36 people)	7 Million CFA (\$14,000)	<ul style="list-style-type: none"> • \$15,000 capital required for basic equipment purchase • Calculated would take 7 years to accumulate capital to purchase equipment. (equipment currently on loan from CIFAB.)
Carpentry Workshop	Carpentry	Bula	5 Permanent Unknown casual		<ul style="list-style-type: none"> • \$20,000 (est) capital required for basic equipment. Wood work eqpt high cost vs other businesses • Equipment purchased by Church funds.
Agri Coop	Agriculture – chicken production and Contract services	Cancungu	12 permanent + 120 casual women	10 million CFA (\$20,000)	<ul style="list-style-type: none"> • Monthly salaries approx 30,000 CFA • Expansion planned
Centre for support for small and micro enterprises - Business Incubator for 8 individual businesses	2 carpentry, 2 metal work, 1 general mechanic, 1 painting vehicles, 2 auto mechanics	Cancungu	Maximum 8 Minimum 1 Average 2 – 3		<ul style="list-style-type: none"> • Original rents 50,000 CFA/month. Reduced to 20,000 CFA. Some tenants now not paying at all, others paying 8000 CFA/month. • Difficult to evict tenants. None have moved on naturally. • Debts owed by tenants

					<ul style="list-style-type: none"> • Central services reduced to minimum • No obvious succession • No real option to move on to – hence reluctance to leave.
Furniture sellers	Carpentry and upholstery (5 businesses)	Bissau	Min 1 max 4.	Average 1,200,000 CFA (\$2500)	<ul style="list-style-type: none"> • Pooled workshop facilities – payments of 50,000 CFA year per to Municipality and 150,000 CFA year to Min of Finance – split between businesses. • Power is biggest limiting factor • Managed workspace would suit these businesses
Retail centre – collection of 5 businesses in mall type location.	Retail sales – clothes, shoes and electronic goods (5 businesses)	Bissau	Min 1 max 5. Average 2.	Range 1,500,00 to 3,500,000 per year (\$3,000 – 7,000)	<ul style="list-style-type: none"> • Location provides space, security, lighting, water, bathroom facilities, storage • Rents of approx 76,000 CFA (\$150) per month paid. • Many businesses externally funded (Portugal, USA). All merchandise imported. Aiming at the affluent Bissau market.

Table 8 Small Business definitions according to Service providers in the small business sector

	Sector activities of small businesses	Employees	Turnover CFA/annum (US\$)	Issues in MSE development
BRS Bank	Agri – fish,	Average 4	5 – 10	<ul style="list-style-type: none"> • Initial registration

(Henrique Horta dos Santos)	potatoes, cashew, palm oil, horticulture	– 6 Range 1 - 50	Million CFA (\$10-20,000)	<ul style="list-style-type: none"> requirements • Ability to plan realistically
Enterprise Works (Mario Alfredo Mendorca)	Dedicated to the Cashew Industry	<50 employees working 10 cashew processing machines	For av 25 employees 112 Billion CFA (\$225,000)	<ul style="list-style-type: none"> • Cost of raw materials • Access to Finance • High interest rates – 16% average • Power dependency
CCIA – Chamber of Commerce (Saliu Ba)	Trading, agriculture, construction, fisheries		15-20 Million CFA (\$30-40,000)	<ul style="list-style-type: none"> • Administrative burden (licences from various ministries) • Access to finance
CENFA (Marcelina Santos Ba)				<ul style="list-style-type: none"> • Bureaucracy • Access and reliable power • Reliable telecoms • Export infrastructure • Taxes • State level issues
PDRRI (programme for demobilisation and re integration of ex combatants)	Agriculture, service and industry businesses, livestock production, fisheries			<ul style="list-style-type: none"> • Small grants given + TA support from local NGO • Lack of information • Bureaucracy • Taxation excessive (finance + city hall + tourism ministry) • Lack of rural infrastructure
FUNDEI (Califa Seidi)		Micro <10 Small <20 Medium >20	Micro <6,000,000 CFA (<\$12,000) Small <30,000,000 (<\$59,000) Medium >30,000,000 (>\$59,000)	<ul style="list-style-type: none"> • Targeting the industrialisation of the country. • SIDA funded • Creating a mini industrial park on the same site as the Cashew processing in Bissau. • The park will contain 4 Juice businesses and 4 Cashew processing businesses. Designed as an integrated and self

				<p>contained system utilising by products for energy.</p> <ul style="list-style-type: none"> • A study is currently in progress to report beginning August on SBI design and operation. • Will share results of study and discuss joint working
MFPT (Ministry of Works)				<ul style="list-style-type: none"> • Lack of credit • Miss use of funds
Minister of the Economy (Issuf Sambin)	Rice, cashew, fish, artisans, fruit			<ul style="list-style-type: none"> • Planning infrastructure to take advantage of regional hydro scheme (\$50 million spend – WB/EU financed)

12.4 BRS Bank Lending Criteria.

The BRS Bank in Guinea-Bissau (Banco Regional de Solidariedade). Started in December 2005 created from within the Economic Union of CFA countries. Targeted at supporting private sector businesses. This is now providing a source of funding for small businesses as well as some business support and planning inputs.

Criteria for money lending are:

- i) Applicants must be from the WIMOA zone
- ii) <55 years old
- iii) Must have an account with the BRS bank. To open an account 25,000 CFA deposit (\$50) required.
- iv) Lending has to be linked to a profitable project proposal

The bank also insists that applicants mitigate risk through private insurance where possible. Lending rates are 10-12% per annum with a maximum loan of 20 Million CFA (\$4000).