

DEMOCRATIZING INCUBATION

CREATING A VIRTUAL STARTUP ECOSYSTEM

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Executive Summary

One of twelve critical ideas deemed by the World Economic Forum's *Symposium on Inclusive Growth* as shaping the future of global inclusive development, India-based business support provider *Intellectap* has harnessed digital technology to develop a virtual ecosystem – *StartUpWave* -- to bolster entrepreneurship in typically excluded markets in India.

There is widespread consensus across both the public and private sectors that promoting entrepreneurship is the answer to achieving inclusive growth because of its ability to mainstream barrier-breaking innovations, democratize access to services, and involve the large majority of low-income populations globally already pursuing enterprise-driven work. Intellectap believes that entrepreneurship support is a key pillar of any strategy that aims to achieve 'inclusive growth' and of establishing systems that allow people across different socio-economic strata to both contribute to and benefit from economic growth. While the amount of capital that has been invested in India's startup economy has increased in recent years, the support system has not been able to catch up.

A more inclusive support ecosystem is needed in order to unlock the power of entrepreneurship for income generation and economic empowerment for those excluded and to develop innovations that address some of the biggest challenges in high impact sectors such as healthcare, water, energy, financial inclusion or education. Intellectap has found that while specialized support to help enterprises create scalable and investable business models is present in metro cities in India, it is rarely found in rural areas where a lot of enterprises are located and where the impact of these enterprises is the greatest. For instance, while approximately 60% of India's enterprises are found in rural areas, only roughly 20% of business incubators providing crucial support services to fledgling enterprises are found in these areas due to lack of infrastructure, capital, expertise, and pioneering risk to cater to these underdeveloped markets.

Intellectap has been a recognized pioneer in creating a support ecosystem for entrepreneurs on their journey from idea to scale through providing capital, advisory and networks in the physical world. However, the scalability of an approach that is only focused on physical interactions has limited scale-potential. Through the use of digital technology, however, Intellectap plans to scale up its physical ecosystem, bringing it in the virtual world: Building on existing evidence that technology has the potential to facilitate the growth of enterprises in small cities and rural towns, Intellectap has started to develop a virtual ecosystem that connects a variety of ecosystem enablers and investors in a concerted manner to bridge three significant gaps:

1. Provide support to enterprises beyond metro cities in smaller towns or rural areas;
2. Scale incubation capacities to a larger number of entrepreneurs than currently being served; and
3. Efficiently manage scarce resources to provide quality business support.

Launched in 2014 in India, StartUpWave has served more than 400 entrepreneurs and connected with 35 incubators, 34 business service providers, 24 mentors and more than 70 angel and seed investors. A pilot launch in Rwanda has proven StartUpWave's capacity to scale globally and offer rural markets in the developing world the opportunity to reap the benefits of robust startup ecosystems. This paper describes the impetus, current progress, and vision of StartUpWave and the larger promise it holds as a tool to drive inclusive growth.

1. Introduction

Setting the Context

Intellectap proposes its virtual ecosystem approach as a solution to address inclusive growth.

This paper is a contribution to the *Global Challenge Initiative on Economic Growth and Social Inclusion* of the World Economic Forum and the *Symposium on Inclusive Growth*, organized by the World Economic Forum's *Global Agenda Meta-Council on Inclusive Growth*, the *MasterCard Center for Inclusive Growth* and the *Center for International Development* at Harvard University. As an example of an institutional approach, this paper outlines Intellectap's pursuit to contribute to inclusive growth through building a support ecosystem for startups and helping them on their journey from idea to scale, using digital technology. In the following pages, Intellectap presents its value proposition and provides first evidence of building a virtual ecosystem for entrepreneurs through the creation of StartUpWave, an incubation and investment platform. The paper is structured in three chapters: This introductory chapter will set the context by defining the power of entrepreneurship to address inclusive growth and providing an overview of India's startup and social enterprise ecosystem, highlighting key gaps in the current support landscape (**Chapter 1**). The next chapter presents Intellectap's value proposition for creating a virtual startup ecosystem and provides first evidence of *StartUpWave* in India and Rwanda (**Chapter 2**). The concluding chapter reflects on these learnings, discussing the catalytic role of digital technology to democratize business support, and briefly sketches Intellectap's vision for the future. (**Chapter 3**).

Shifting the growth paradigm: India's new entrepreneurial economy

The evolution of a movement: The growth of the global startup economy

Something interesting is happening around the world: Motivated by a drive to innovate, create and disrupt and enabled by information and communication technologies, a new generation of entrepreneurs is emerging globally. The digital revolution has enabled copying and building on existing platforms; the spread of concepts like *lean startup* have lowered the barrier to start-up, inspiring an increasing number of young talent to turn ideas into business models. The prolonged economic crisis of 2008 in the global North and the unemployment challenge in the global South has been an additional driver, encouraging a new generation of youth to invest in creating own enterprises rather than joining the corporate world. According to a recent survey of 12,000 'millennials' from 27 countries, 68% believe that they have the opportunity to become an entrepreneur and 62% are confident in their ability to make a difference in their local communities, signalling a cultural shift.² The number of Americans that started a business in 2014 is at a historic high, having grown 14% compared to the previous year, with an 8% increase of high growth enterprises.³ The global entrepreneurial movement has led to the mushrooming of incubators, accelerators and co-working spaces across the world: While Silicon Valley is still the reference model for many, new startup hotspots are emerging in Nairobi, Lagos, Bangalore, Singapore or Jakarta and have become the breeding ground for innovative enterprises.

² Global Millennial Survey, Telefonica 2013

³ Global Entrepreneurship Monitor USA Report 2014, Babson College, 2015

The world at a tipping point: The entrepreneurial economy as alternative to the industrial age

The growth of the global startup movement marks the beginning of the what the *Economist* termed the ‘Cambrian moment’ and a global paradigm shift.⁴ While the last century was dominated by the industrial age with large corporates driving economic growth, the current century is characterized by creativity of individuals, new forms of collaboration and decentralized innovation, enabled by digital technology.⁵ The explanations for this shift are many: The new era is driven by higher competition, increased information transparency, and new consumer behaviours, which startups find easier to adapt to than large corporates. The cost of product development has fallen by a factor of 10 over the past decade, making it more affordable to create value and hence to startup.⁶ Finally, often asset light tech or service sector startups require less capital, allowing new types of investors such as angels, micro-VCs and accelerators to give birth to a larger number of startups. As a result of these changing conditions the last 15 years has seen a startup-take off: Today a significant proportion of job and economic growth in the US, for example, comes from high growth technology companies such as Apple, Amazon, Google, Facebook and Twitter, whereas the performance of traditional corporates has been decreasing: Recent research of US firms has shown overall declining company performance over the past 45 years, despite an 800% increase of productivity, indicating that old success metrics of growth need to be re-thought.⁷

Jobs, income and economic empowerment: Startups at the center of an ‘inclusive economy’

The declining performance of the corporate real economy combined with the increased recognition that traditional growth metrics such as GDP have less direct implication on a country’s quality of life or access to basic services such as health care or education have contributed to an increased questioning of existing development models and the search for more ‘inclusive’ and ‘broad-based’ growth strategies.⁸ The recent *Inclusive Growth and Development Report 2015* by the *World Economic Forum* has demonstrated that GDP growth has contributed to lift people out of absolute poverty, but improvements of living standards have not kept pace with the growth of GDP figures.⁹ Today, there is a wide consensus that ‘inclusive growth’ requires systems that allow people across different socio-economic strata to contribute to and benefit from economic growth. Entrepreneurship is seen as a key answer to expand social participation and inclusion.¹⁰

- **Economic empowerment:** Through providing jobs and incomes, entrepreneurs contribute to economic empowerment: As a recent study by *Kauffmann Foundation* has demonstrated, it is the startup economy that has been responsible for net job growth in the US over the past 28 years.¹¹ Similarly, in Africa and Latin America, a person is twice as more likely to be employed by a micro, small or medium enterprise than a large business.¹² In India, more than 30 mn micro, small, and medium enterprises create more

⁴ The Cambrian Moment, *The Economist*, Jan 18, 2014

⁵ Understanding “New Power”, J. Heimans and H. Timms, *Harvard Business Review*, Dec. 2014

⁶ Global Startup Ecosystem Report, *Compass*, 2015

⁷ Shift Index, *Deloitte Center for the Edge* 2013

⁸ What is Inclusive Growth? *World Bank*. Feb 2009

⁹ The Inclusive Growth and Development Report. *World Economic Forum* 2015

¹⁰ Forum Issue: Promoting Inclusive Growth. *OECD*. 2015.

¹¹ The Importance of Startups in Job Creation and destruction, *Kauffmann Foundation*, 2010

¹² What is “Inclusive Growth?” *Cafod*. Aug 2014.

than 69 mn jobs.¹³ Even though a large part of these enterprises remains small, emerging economies witness the growth of opportunity-driven high growth enterprises, making them the key driver for employment and income generation.¹⁴

- **Participation:** Central to the new entrepreneurial movement is a value shift that puts participation in the centre: The startup-movement recognizes the ability of individuals to develop solutions that improve the current system, while collaboration and co-creation enable crowd wisdom.¹⁵ Popular startup methodologies such as *human centric design* or *lean start up* make the innovation process itself more inclusive, increasing participation of different stakeholders in the solution development.¹⁶ Today, co-creation and participation happens across geographies: Startup ecosystems are highly connected, developing joint solutions to common problems or helping enterprises to replicate business models.
- **Self-organization:** With the rise of the startup movement, new forms of more informal and short-term networks, peer-to-peer and collaboration structures have evolved, increasing participation and transparency.¹⁷ Never before were trust levels to traditional institutions and government so low: The *2014 Edelman Barometer*, surveying more than 33,000 people from 27 economies, shows there is a historic gap between trust levels that business and government enjoy. The entrepreneurship economy builds heavily on trust between peers, and hence is an alternative to established organizations.
- **Social Innovation:** It is widely accepted that entrepreneurship is a driver for innovation. According to one of the most quoted entrepreneurship scholars of the 20th century Joseph Schumpeter, entrepreneurs are ‘creative destructors’ and as such disrupt the status quo. An increasing number of startups aims to find solutions to some of the world’s biggest challenges and addressing social needs, for example through increasing the access to basic services in health, water, sanitation, energy, education, financial inclusion or women empowerment.

Against this background, the next years will be characterized by a growth of entrepreneurial ecosystems in the global South: While the past decade has been dominated by success stories of startups in the global north and ecosystems such as Silicon Valley, Boston, TelAviv or Berlin, the new startup epicentres will increasingly be in the global South in places such as Sao Paulo, Accra or Bangalore. It is in the emerging economies, where entrepreneurship can make a significant different in fostering an inclusive development.

The world’s fastest growing startup economy: India’s startup revolution

India is the fastest growing start-up economy today with 3,100 startups in 2014 to a projection of 11,500 in 2020—making it the fourth largest ecosystem globally.¹⁸ With 73% of founders below 36 years, India is also one of the youngest startup ecosystems.¹⁹ Between 2010 and 2014, the infusion of venture capital and private equity increased from US\$ 13 mn

¹³ Fourth All India Census of Micro, Small & Medium Enterprises 2006-2007: Unregistered Sector. MSME. 2011

¹⁴ Global Entrepreneurship Monitor, Country Profiles (website, accessed 06.09.2015)

¹⁵ Understanding “New Power”, J. Heimans and H. Timms, Harvard Business Review, Dec. 2014

¹⁶ See e.g. The Lean Startup. Eric Ries, 2011

¹⁷ Understanding “New Power”, J. Heimans and H. Timms, Harvard Business Review, Dec. 2014

¹⁸ NASSCOM

¹⁹ NASSCOM

to US\$ 1.8 bn. Angel investing has multiplied almost 8 times from \$US 4.2 mn to US\$ 32 mn.²⁰ The average deal size has gone up and so have the valuations: Online retail startups like *Flipkart*, *Snapdeal* and *Ola* have become the face of India's startup boom, having crossed the US\$ 1 bn valuation and increasing global attention. Bangalore-based Flipkart has raised over US\$ 3.5 bn in 10 rounds—when it raised its last funding round of US\$ 700 mn in July 2015, its valuation stood at US\$ 15 bn.²¹

The growth of India's startup economy is fuelled by the growing consumer market, backed by the mobile revolution. E-commerce saw US\$ 3.23 bn of investments in 2014, followed by closely related sectors such as consumer internet and mobile apps and significant investments in education and health. International investors like *TGM*, *Tiger Global*, *Softbank*, *Nexus Venture Partners*, *Sequoia* or *Accel Partners* are among the top foreign investors fuelling the Indian start-up boom with capital. Startup hubs attract most capital: With US\$ 2.43 bn investments in startups in 2014, Bangalore is the startup capital in India—and the second best funded startup hub in the world²²—followed by Delhi with US\$ 1.43 bn and Mumbai with US\$ 610 mn.²³

To counter the unbalanced capital flows in India's startup capitals Bangalore, Delhi and Mumbai and moving beyond the tech startup sector, a class of high risk taking 'impact' venture funds goes the extra mile and invests in entrepreneurs and transformative business models in India's rural or underserved markets in sectors such as healthcare, education, financial inclusion, agriculture, or water and sanitation: Together, impact funds with their origin outside of India like *Acumen* or *Omidyar* as well as home-grown funds like *Aavishkaar* have made US\$ 1.6 bn until 2014 and invested in around 220 enterprises.²⁴

Solutions for the mass market: India as hotbed for social innovation

Apart from the recent e-commerce take-off, India's startup economy is globally regarded as a center for frugal innovation and social entrepreneurship with a highly evolved ecosystem of pioneering investors and a wide array of enterprise enablers. One of the early examples and most celebrated social enterprises include *Amul*, a cooperative organization set up in the 1970s that played a critical role in building India's milk self-sufficiency by putting producers first. *Fabindia*, established as a corporate entity to generate livelihoods for artisans in rural India, is another prominent enterprise of that period that was able to successfully scale up across the country.

Today an increasing number of enterprises deliver products and services or create employment and livelihood opportunities for low income societies, for example, through developing solutions to increase access to basic services such as healthcare, education, water, sanitation, and energy or building technology solutions that increase access to information and services for the poor and those normally excluded from mainstream markets. While financial empowerment of the BoP has become a key tenet for social enterprises such as *Spandana* and *SKS*, who demonstrated the potential of microfinance, today healthcare, agribusiness and clean energy have become important sectors. Enterprises like *Aravind Eyecare* that provides affordable eye care or *SELCO*, which improves energy access are well

²⁰ NASSCOM

²¹ Venture Intelligence, Crunch Base

²² Global Startup Ecosystem Report, Compass, 2015

²³ Your Story

²⁴ Invest, Catalyze, Mainstream: The Indian Impact Investing Story. Intellectap. 2014

documented examples that increase access to basic services and improve the quality of life of the ‘base of the pyramid’.

The growth of the social enterprise sector has been fuelled by an increasing amount of capital that is ready to be invested in businesses that create social impacts at scale and the evolution of an ecosystem consisting of specialized service providers and incubators such as *Villgro*, *Rural Technology and Business Incubator (RTBI)* and *Unltd India*, training providers such as *Dasra* and *Ennovent*, and networking platforms such as *Sankalp* and *Khemka Forum* that address different needs and helping social enterprises scale up.²⁵

Figure 1: Key Definitions

This paper refers to **startups** and **enterprises** interchangeably: The focus of this paper is growth-oriented, early stage enterprises and enterprises on their journey towards scale. Startups or early stage enterprises are a temporary organization designed to search for a repeatable, scalable business model. They are hence different from small enterprises, whose prime motive is stability. The underlying assumption is that entrepreneurs are opportunity-driven problem solvers; this paper therefore does not refer to the large number of necessity entrepreneurs that form the majority of enterprises in emerging economies.

This paper refers to **social enterprises** and **impact enterprises**, referring to micro, small and medium enterprises that are registered as for-profit entities and that provide products and services or employment and income opportunities to excluded and marginalized population in low income contexts. Often, these enterprises provide market-based solutions in sectors such as energy, water, education, healthcare, financial inclusion and agriculture.

For the purpose of this paper, we define the **startup or enterprise ecosystem** as a combination of financial and non-financial support services for enterprises as well as networks and platforms that connect enterprises with peers, investors, and other industry players. The startup ecosystem comprises of enterprises, investors, incubators and accelerators, specialized service providers and other enablers as well as market infrastructure that allows interaction between the individual entities in the ecosystem.

For **inclusive growth**, we refer to the World Bank definition that includes the pace and pattern of economic growth.² Accordingly, a rapid pace of economic growth is necessary for reducing absolute poverty.² However, it also acknowledges that sustainable growth needs to be broad-based across sectors, and inclusive of the large part of a country’s labour force.² The World Bank emphasizes the need for inclusive growth to generate productive employment, rather than employment *per se*, or income redistribution.² Employment growth is important as it generates new jobs and income; however, productivity growth has the potential to increase wages of workers and the returns of the self-employed.

²⁵ Intellect Research

The challenge: India's imbalanced ecosystem

Enterprises beyond startup hubs have limited access to ecosystem

Binayak Acharya, an electronics and telecommunication engineer and a rural management graduate from *Xavier Institute of Management, Bhubaneswar*, aspired to create and expand opportunities for quality education in the underserved areas of India. He founded *TatvaGyan*, which provides high quality holistic early childhood and remedial education support in rural and semi-urban areas through a skills-based approach. While India has gained global recognition as a hub for innovative business models like *TatvaGyan*, access to business support remains a challenge for entrepreneurs like Binayak who are far away from start-up hubs like Chennai, Bangalore, Delhi, Hyderabad or Mumbai.

Enterprises in tier II and tier III cities and smaller towns have access to generic business support, but specialized support to help enterprises create scalable and investable business models is rare. Investment readiness support is mostly offered in metro cities where investors and high quality talent is located. Of the 251 public and private incubators in India, only 53 (21%) are located in rural India, while 95 (37.8%) are in metro cities and 103 (41%) are in tier II and tier III cities.²⁶ Similarly, the social enterprise ecosystem is skewed towards metro cities: Incubation programs, business plan competitions and investor pitches are happening in startup hubs, far from where social enterprises are operating.²⁷

Incubation and investment readiness support is not available beyond metro cities

This ecosystem gap hits enterprises especially hard when it comes to helping them on their journey from idea to scale through raising appropriate forms of capital and providing the necessary business advice to help the enterprise scale: According to Intellectap's analysis, 80% of incubators in metro cities provide enterprises with some form of investment readiness support.²⁸ However, this capacity is reduced to about 45% in Tier III cities: In fact, even though the seven poorest states in India (Bihar, Chhattisgarh, Madhya Pradesh, Uttar Pradesh, Odisha, Rajasthan, and Jharkhand) have 16% of the country's business incubators, only a minority of them provide rigorous business and advisory support that are needed to ensure enterprises have the viable business model to successfully raise investments.²⁹ Consequently, these regions cumulatively house only 2% of the country's enterprises.³⁰

The Indian ecosystem hence has not been able to respond to the realities of entrepreneurs' needs: While a number of investors are willing to take on a pioneer role, most are constrained by a lean team or are not able to bear the cost that additional business support would require and hence are not providing the much needed incubation support. This shortage of business support hits the early stage enterprises especially hard: Every year, more than 92,000 enterprises are registered in India, only one in ten enterprises survives the third year—leaving a huge potential of innovation untapped.³¹ Providing early stage entrepreneurs independent of their location with a nurturing environment can increase the survival of many great ideas.

²⁶ Final Report – Fourth All India Census of Micro, Small & Medium Enterprises 2006-2007: Registered Sector. MSME, India. 2011; Final Report – Fourth All India Census of Micro, Small & Medium Enterprises 2006-2007: Unregistered Sector. MSME. 2011

²⁷ Enablers for Change. A Market Landscape of the Social Enterprise Ecosystem. GIZ 2013

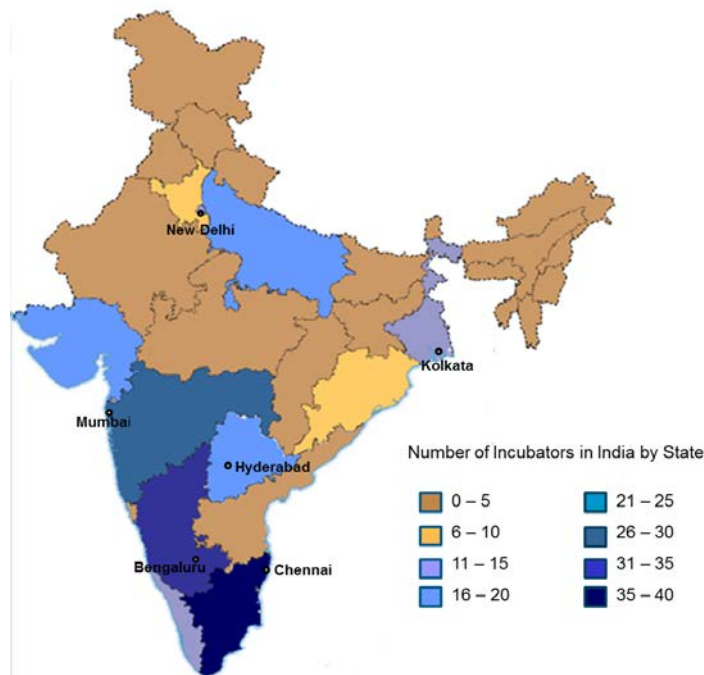
²⁸ Intellectap Research

²⁹ Why failed entrepreneurs can't legally close startups in India and start afresh. Julka. 2014.

³⁰ World Bank to support seven low-income States. The Hindu. 2013.

³¹ Ministry of MSME 2011

Figure 2: India's Incubation Landscape



Source: *Analysis of Incubators in India. Intellect analysis. Aug 2015.*

There is a need to broaden the ecosystem beyond startup hubs

The challenge lies in pushing the boundaries and making India's entrepreneurial ecosystem more inclusive, involving a larger number of entrepreneurs across geographies in the startup movement. Few actors have started to experiment with models to reach out and make the ecosystem more inclusive:

- *Startup Oasis* is an initiative that aims to foster entrepreneurship and innovation in Rajasthan. It is a joint initiative by RIICO, Rajasthan's premiere industrial promotion organization, and the Center for Innovation, Incubation and Entrepreneurship in Ahmedabad, India's leading incubation center
- *Villgro* runs a program '*Unconvention/L*' in 15 cities across India, offering a combination of initiatives that draws impact entrepreneurs from different regions, shares expert knowledge from sector leaders, and connects people to an ecosystem of opportunities and resources.
- *Unltd. India* has started a franchising model and created a network of affiliates that now provide support in Mumbai, Hyderabad, and Auroville.
- *Aarohan Ventures* has started a *Social Incubation Initiative* in collaboration with German development agency, GIZ, building capacities of incubators across the country and hence improving local social enterprise ecosystems in places such as Coimbatore, Jaipur, and Madurai.

In order to make entrepreneurship a solution of India's inclusive growth story, an inclusive ecosystem needs to be built that allows entrepreneurs from all geographies and backgrounds to access the best of support. The challenge that India's ecosystem faces is to scale up these existing efforts and provide high quality support to a larger number of enterprises in geographies beyond Chennai, Delhi, Mumbai, and Bangalore. Applying the World Economic Forum's *Inclusive Growth and Development Framework*, which defines small business

ownership and entrepreneurship as a key pillar of Inclusive Growth, measures in how far an ecosystem is providing favourable framework conditions to start and grow a business. Equitable access to seed and growth capital as well as business support are hence critical enablers for an inclusive entrepreneurial ecosystem.

The Indian ecosystem is confronted with three key challenges.

Intellectap has identified three key gaps in the current ecosystem and questions that need to be addressed to close these and expand the entrepreneurial economy, creating a more inclusive entrepreneurial ecosystem:

- **Reach:** How to increase incubation support for enterprises beyond metro cities?
- **Scale:** How to enhance incubation capacities to provide support to more entrepreneurs?
- **Resource efficiency:** How to use talent and scarce resources more efficiently to provide high quality incubation support?

Intellectap believes that the answer lies in a smart use of digital technology and a combination of online and offline support: The proposed solution, StartUpWave, uses technology to address these gaps in the current entrepreneurial ecosystem by providing reach to entrepreneurs from across India at a large scale, while involving the best resources from startup hubs and engage them in mentorship and advisory.

2. Intellectap's Value Proposition: Creating a Virtual Ecosystem

Using technology to scale up the startup ecosystem

Technology can bridge important gaps of the physical ecosystem

While the traditional model of physical business incubation with roots in the US has become an important pillar of many entrepreneurship promotion strategies globally over the past 50 years, its limitations have become evident in recent years, especially when it comes to the question of impact and scale: The quality of services and support of physical incubators is heavily dependent on location. They are often capital intensive and typically have the capacity to only serve a few select types of enterprises due to financial and infrastructural constraints. Hence, they have a limited ability to reach enterprises at scale.³² Physical incubators often gain their revenues from incubatees paying for co-working space or businesses services; often the incubator takes an equity stake in the company. Most incubators have a rigorous process in selecting enterprises, preventing very early stage innovators and entrepreneurs without a team from accessing incubators' specialized services.³³ Recognizing these limitations, the use of technology to provide startup support has increased in recent years with the objective to reach more entrepreneurs at lower cost.

As a response to gaps in the ecosystem, virtual incubation models have emerged globally.

Virtual incubators with business models centered around the dissemination of their services via technology and digital platforms to reach the otherwise unreachable, have grown in the past few years, capitalizing on the potential of entrepreneurs based in tier II and II cities and small towns. Many virtual incubators started out as mentorship platforms, connecting entrepreneurs to an existing online network of advisors to “hand-hold” them through the

³² Reaching Entrepreneurs through Alternate Models: Lessons from Virtual Incubation Pilots. infoDev. 2014.

³³ *ibid*

entrepreneurship process.³⁴ As a recent stocktaking of World Bank's *infoDev* reveals, many models have progressed to become "network boosters" and seed-capital providers, helping facilitate more meaningful engagements between startups, experienced entrepreneurs, and investors, while at the same time shrinking the time and resources it takes to go through a due diligence process or close investments.³⁵

- **LetsVenture**, an India-based online network of global angel investors launched recently in early 2014 and has already gained traction amongst entrepreneurs across India. Many of these enterprises would otherwise not have access to the networks and connections needed to gain funding such as traditional angel investors that are part of the Indian Angel Network or Mumbai Angels.³⁶ As a "level platform for entrepreneurs," LetsVenture has proven that entrepreneurs in non-metro areas have the ability to adapt deftly to technological tools to enhance their business models if these tools are made available to them.
- Similar to this model, **VC4Africa** is a web based platform, connecting enterprises across the African continent with investors and mentors and creating a peer-to-peer mentoring network. It was started as a LinkedIn group in 2008 and has grown organically into what is now the largest online community of entrepreneurs and investors dedicated to building innovative companies in Africa. Operating as peer to peer network, the community has members in 159 countries and meetups have been hosted in more than 50 cities around the world. It offers free online tools, mentorship opportunities, and private deal rooms to help entrepreneurs navigate the investment process. Enterprises can pitch their companies with no fee, while investors pay a membership fee to be on the network. This ensures access for enterprises, ensuring support from idea stage.³⁷
- On the ecosystem level, **infoDev**, a global initiative supported by the World Bank to enhance innovation across emerging markets, has leveraged technology to create promising virtual incubation models for entrepreneurs outside of entrepreneurial hubs. A recent evaluation of their pilot program in Vietnam found that while virtual incubation cannot entirely replace physical incubators, virtual support platforms were found to make a significant impact on areas with burgeoning youth populations that need training and inspiration to build up their local communities through entrepreneurship.³⁸ The study also found that virtual incubators are highly relevant for areas with poor or low levels of infrastructure and a lack of both public and private sector investment and interest in fostering entrepreneurship and innovation.³⁹

Existing virtual incubation models have been providing different kinds of business support, networking, and/or capital (Table 1). While these models have shown encouraging results to address a large number of enterprises across geographies in an efficient manner and optimizing the use of financial and human resources, many initiatives have remained relatively small and stand-alone initiatives of a fragmented ecosystem. Value propositions vary: While some focus on capital raising, others provide a repository of business support or

³⁴ *ibid*

³⁵ *ibid*

³⁶ An alternate platform for angel investing. Sarkar. 2015.

³⁷ Venture Capital For Africa. VC4Africa. 2015.

³⁸ Reaching Entrepreneurs through Alternate Models: Lessons from Virtual Incubation Pilots. *infoDev*. 2014.

networking opportunities, making it difficult for entrepreneurs to navigate the increasingly complex ecosystem.

Table 1: Examples of delivery models of virtual incubation services

Virtual Service Provider	Services offered
On-site	Group training, workshops, presentations and events to which incubatees are invited (physical locations).
E-learning	Providing online training materials and information.
1-on-1 ICT exchange	E-mail, SMS, phone, Skype, MSN and online collaboration tools.
Online recruitment	Recruiting incubatees, mentors, interns, investors and match-making to add business value.
Virtual communities	(Virtual) communities and online platforms where entrepreneurs meet, exchange knowledge and information, and engage in collaboration.
Mobilising the online crowd	Crowdsourcing and crowd funding

Source: infoDev. 2014.

From virtual incubation to a virtual ecosystem: Helping entrepreneurs from idea to scale-up

While the success of virtual incubation models has proven that technology can be leveraged to bolster the capabilities of entrepreneurs in remote areas, there is a need for a virtual market infrastructure that brings capital, advisory and networks on one common platform, helping enterprises throughout their journey from idea to scale with stage-appropriate support and making it easier for entrepreneurs to navigate the support landscape. In the physical world, Intellectap over the past 13 years has developed an ecosystem of support that helps an entrepreneur from idea stage to scale, providing him with a combination of stage-appropriate capital, advisory services, and networks. In the physical world, Intellectap has provided entrepreneurs with an ecosystem, combining the following services:

- *Aavishkaar*, India's first impact fund, established in 2001, invests in underserved regions, identifying capable entrepreneurs, providing them with capital, supplementing them with a nurturing environment, and helping them build sustainable enterprises. Aavishkaar has \$200 mn under management.
- Through *Intellectap Impact Investing Network* (I3N), Intellectap facilitates investments of the size US\$ 0.1 to 1 million from more than 90 high net worth individuals and seed funds.
- The subsidiary *IntelleGrow* channels venture debt capital in early stage social enterprises.
- Smaller ticket-sizes are provided via the subsidiary, *Arohan*, which provides microfinance to micro-ventures. Through a vehicle, *Intellectash*, debt is extended to micro entrepreneurs that are too big for microfinance.
- Intellectap's investment banking team is connected to over 300 institutional investors and has channelled over \$200 million in high-potential social enterprises.

- Intellectap's consulting and business advisory services provide support to enterprises on aspects such as business modelling, market entry strategy, and pilot and commercialization strategy.
- To make networks available, *Sankalp Forum* is a powerful convening platform that annually brings together over 2000 social enterprises, impact investors, large corporations, governments, donors and DFIs at conferences in South Asia, South East Asia, and East Africa.

Building on this experiences in the physical world, Intellectap aims to build a virtual ecosystem that creates value for entrepreneurs, investors, and other ecosystem players through providing an interconnected platform that facilitates access to capital, high quality, affordable business support as well as peer-to-peer and mentor networks. By virtual ecosystem, we refer to two ideas:

- *Virtual* service delivery means location independent provision of business support
- *Virtual* service delivery also means non-linear, on-demand support
- *Virtual ecosystem* implies the idea of providing a bouquet of financial and non-financial business support to a dispersed group of enterprises using ICT-based tools, where service providers and recipients are not in the same physical location

StartUpWave: A virtual incubation platform

StartupWave aims to democratize incubation

In alignment with its existing efforts to create a facilitative physical ecosystem, Intellectap has started to build a virtual infrastructure for the Indian start-up incubation eco-system in 2014. As a first attempt to test this hypotheses, Intellectap with seed-support the Government of UK's Department for International Development in India and GIZ on behalf of the German Ministry of Economic Cooperation and Development (BMZ) conceptualized a pre-virtual incubation platform, *StartUpWave*, to leverage the power of networks, collaboration, and technology to support entrepreneurs at different stages of their growth through the optimized use of resources. Multiple stakeholder consultations with enterprises, incubators, investors, corporates, and other service providers were held to tailor the model and make it suit the demands of entrepreneurs, incubators, and investors.

Through the initial services offerings on StartUpWave, Intellectap set out to address two critical problems:

1. **The absence of a support system for enterprises at the ideation stage.** Our research shows that 95-98% of Indian enterprises applying for incubation, funding, or any early stage support are rejected at the application stage predominantly because of a lack of preparation and low incubation-readiness.
2. **The absence of entrepreneurship-support eco-systems for enterprises located in Tier II and Tier III cities and small towns.** Even if they are incubation-ready, these enterprises are not able to progress effectively through an incubation program as most mentors and investors are concentrated and have expertise in Tier I cities.

To address this imbalanced ecosystem and provide equitable access to incubation support and investments, Intellect aimed to democratize incubation, looking at democratization through three lenses:

- **Access:** The entry to the StartupWave platform is free and open to anyone with a business idea, independent of his location or background. Free access ensures that the best tools and insights on building a business, curated workshop sessions and high quality expert validation on the entrepreneur's idea is available to anyone who is starting out on the path of building a business. Easy to understand content, checklists and bite-sized videos break complex business terms down in digestible pieces that make it easy for those entrepreneurs who do not use English as the primary medium of communication.
- **Choice:** Entrepreneurs can customize their StartupWave journey by selecting which services they need and which investors, incubators and service provider they want to connect with. Intellect is hence putting the power back in the hands of the entrepreneur. StartUpWave uses tools that guide entrepreneurs in articulating their ideas better without having to write long pages of business plans; targeted feedback on the business model and mentor-interaction at a time of their convenience improve the experience for the entrepreneur.
- **Common industry infrastructure:** Through the ecosystem approach of bringing all stakeholders, including investors, corporates, incubators, accelerators as well as accredited business service providers such as web designers, legal service providers, accountants and lawyers on one platform, we help enterprises to navigate the support landscape and decrease the time spent on finding the appropriate service provider. From the perspective of the investors, incubators, and service providers StartupWave becomes the channel to reach out and support entrepreneurs in tier II and III cities and smaller towns – extending their own capacities to work with a broader set of entrepreneurs. StartupWave hence services as a infrastructure for the whole Indian startup ecosystem.

StartUpWave offers pre-incubation and incubation support to startups across India

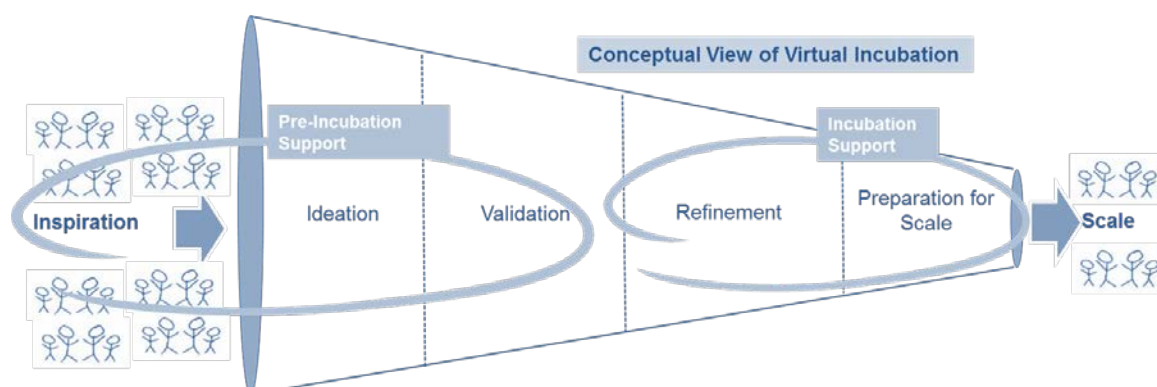
Through StartUpWave, Intellect aims to weave digital technology in its different core processes, resulting in increased value for entrepreneurs, investors, support providers and other ecosystem players by providing the following services:

- **Pre-Incubation:** Provide pre-incubation support to idea-stage enterprises and increase the efficacy and capacity of physical incubators by improving the quality of incubation ready pipeline
- **Incubation:** Provide incubation support to enterprises so that they can move toward a state of investment-readiness
- **Demo-Day:** Facilitate investments and create a pipeline of viable, investment-worthy enterprises that can be showcased to investors

In its current form, StartUpWave provides support to entrepreneurs in two stages: the “pre-incubation” stage; and “incubation” stage. Pre-incubation services help to get idea and pilot stage enterprises incubation-ready and at the end of the process showcase them to physical incubators for further support. Incubation services provide stage and sector specific, location independent support to enterprises through a structured methodology, culminating in a demo day and showcase to investors. While pre-incubation services have been offered since April

2014 and have supported close to 500 enterprises, the incubation support cycle is currently under development and will be launched in November 2015.

Figure 1: StartUpWave Pre-incubation and Incubation Phases

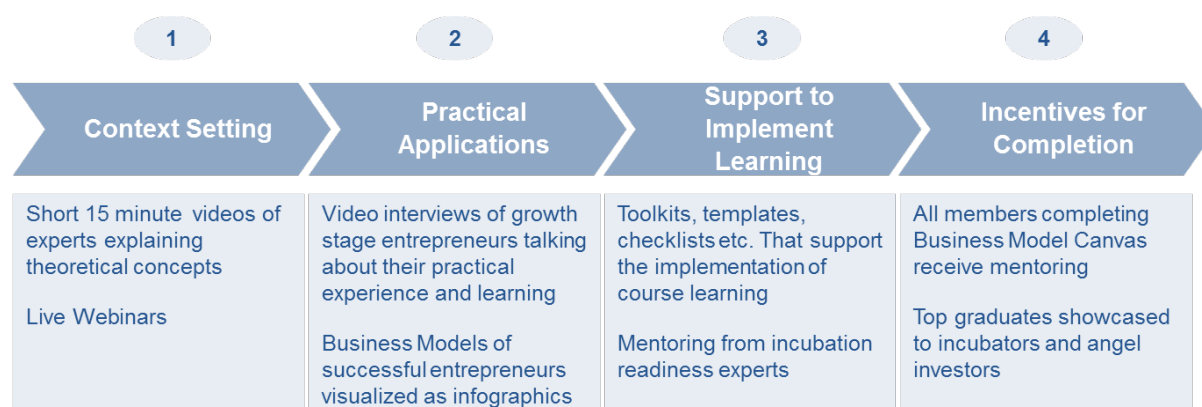


Pre-incubation services offer a one-stop solution for idea and very early stage enterprises.

StartUpWave's pre-incubation services were developed as a one-stop solution for idea and very early stage enterprises to learn and build their business models and get an opportunity to present it to a large group of incubators, accelerators and other supporters. In a nutshell, StartUpWave's pre-incubation support offers the following services:

- Startup Garage containing short videos on key themes relevant for startups
- Opportunities Board including event and funding announcements
- Online Course for building business model, using the Business Model Canvas
- Business Model Evaluation Services and Online Mentoring
- Common Incubators' Pitch
- Matchmaking facility for enterprises and incubators

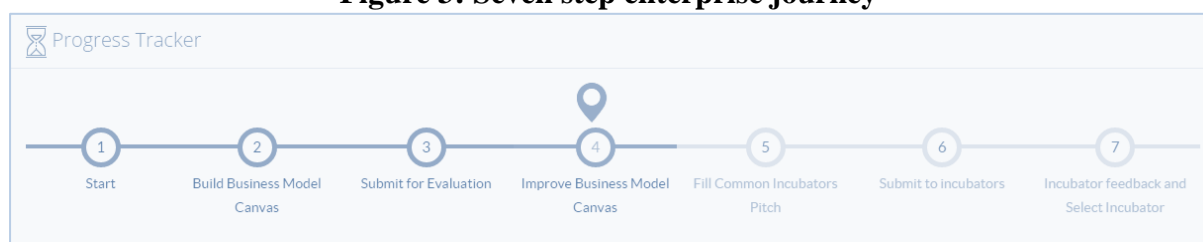
Figure 2: Service offerings of StartUpWave pre-incubation services



A 7-step process helps turning ideas into business models.

The StartUpWave team sources idea and pilot stage enterprises from across India and helps them validate their ideas and business plans, using expertise from a group of carefully selected evaluation committee members who are investors and subject matter experts. Enterprises register at the platform and can access video content on subjects such as raising capital, approaching investors, preparing a pitch-document, developing a value proposition, among others. The central element is a business modelling module that uses the business model canvas and helps enterprises to articulate their business idea through a guided process. An online workshop that includes well-curated video content as well as checklists and reading material helps the entrepreneur to develop his idea (Figure 6).

Figure 3: Seven step enterprise journey



After completion of the business model canvas, entrepreneurs get feedback from the evaluation committee members. Apart from an assessment of industry-related aspects such as market potential as well as business model-specific parameters such as value proposition, revenue model and risks and aspects such as team and market understanding, the evaluation committee also assesses the social impact of the business model. Some incubators and investors select enterprises based on the social value, an enterprise creates.

After enterprises have integrated mentor feedback and improved their business model, they have the opportunity to fill out a common incubator pitch, an online application form that allows easy application to 25 incubators at one go. Not all enterprises finish the whole journey as every step requires enterprises to pass a gate and demonstrate their seriousness. Out of 500 entrepreneurs who have started the process so far, only 30% have completed all 7-steps.

Lean team with big impacts: Leveraging networks and partnerships

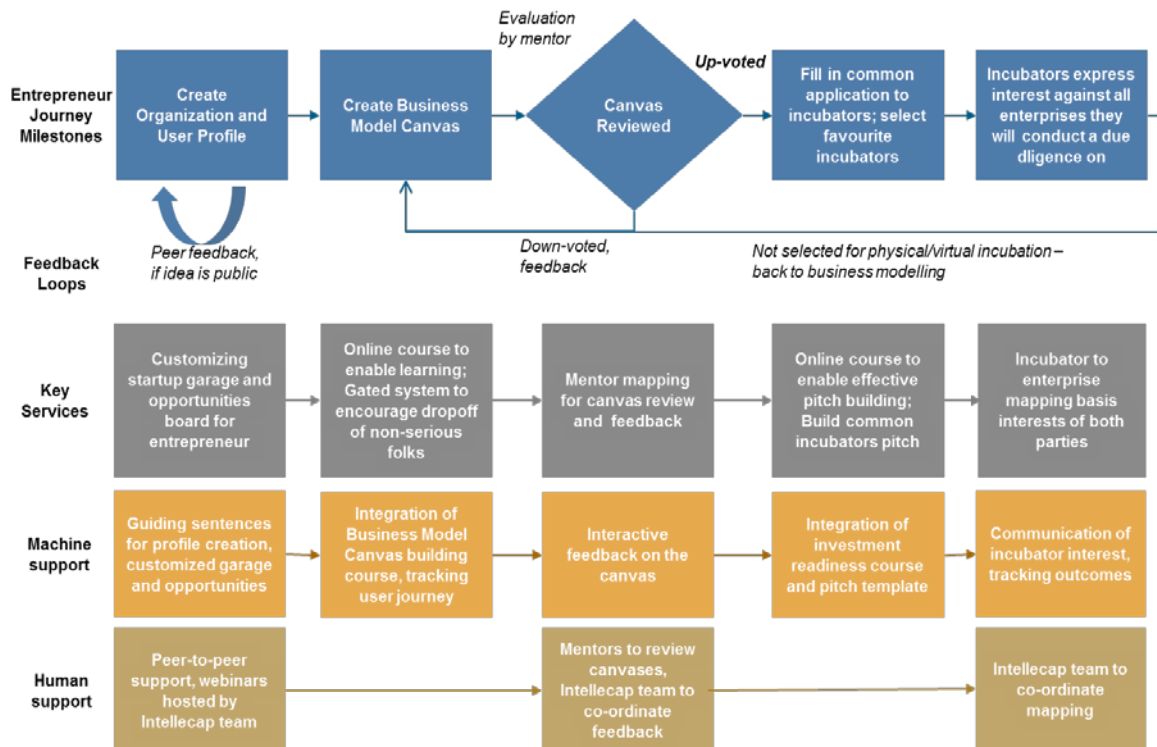
The StartUpWave workflow was designed for a lean core team and a pool of high quality, external evaluation committee members and mentors who together provide support to enterprises by leveraging technology and using a smart combination of human and tech-enabled support (Figure 7).

Evaluation Committee comprises of mentors belonging to investment banks, venture capital, and private equity funds, incubator managers, and capacity building experts. To reach out to innovators, StartUpWave engages in partnerships with other ecosystem players and uses a combination of online and offline service offerings.

Offline support includes entrepreneur-investor speed-dating sessions, mentoring clinics, business plan competitions, and hackathons. Examples of recent outreach activities include three ‘developer garages’ jointly organized with *Facebook’s Internet.org* to establish partnerships between social change organizations and developers for building scalable mobile

websites and applications that provide critical information and services to low income communities. More than 80 developers, coders, and social enterprises joined these events.

Figure 7: Workflows of StartUpWave



Results and Impacts

Our traction shows the value of this approach to entrepreneurs as well as investors and incubators. StartUpWave has grown at a month-on-month rate of 20% since our launch in April 2014. Since its inception, StartUpWave has been successful in achieving its primary objective of creating the country's first shared infrastructure for incubation of startups. As a virtual platform, it has been successful in bringing together a group of stakeholders and services in one place and hence acting as a virtual ecosystem.

Few key achievements since its launch in 2014 are listed below:

- **400 entrepreneurs** have received pre-incubation support on the platform
- **35 incubator partners** have joined StartUpWave for access to high quality, incubation-ready enterprises
- **34 business service providers** such as lawyers, accountants, technology developers, and others have joined the platform to support entrepreneurs
- **25 mentors** with sector expertise in different areas are validating the business models of idea-stage enterprises
- **14% of enterprises** are led by **women entrepreneurs**
- **7000+ people** connected to StartUpWave via social media

With these first successes, StartUpWave is now ready to be scaled up as a global platform. While its incubation services are yet to be tested in India, pre-incubation support can be offered globally.

Scaling StartUpWave to Africa: Experiences from a pilot in Rwanda

A similar development context makes StartUpWave relevant in Rwanda

While StartUpWave was developed for the Indian ecosystem, it has the potential to be scaled to other regions such as Africa and South East Asia. Its application in East Africa has been discussed in two round tables during Intellectap's *Sankalp Summit* Nairobi in 2014 and 2015 with more than 100 stakeholders. The interest of East African ecosystem players in this solution was high, especially by stakeholders in Rwanda: While Rwanda has been achieving high rates of economic growth and has shown an extraordinary commitment to economic reforms, ranking 46th in the World Bank's Doing Business Report 2015, the country faces challenges to fully unlock the potential of its enterprise sector. With its high population growth and a very young population, each year about 120,000 young people leave school and enter into the job market. The Rwandan Government is therefore working to increase the productivity of the private sector in order to create employment opportunities and improve the employability of the overwhelmingly young population.

Strengthening technology entrepreneurship has been one answer to provide young entrepreneurs a more vibrant environment. Tech-startups have been on an upswing in Rwanda, and with the surge in incubators like *Think* and co-working spaces like *The Office*, aspiring Rwandan students and entrepreneurs are finding effective mentors to help them create sustainable and scalable technology ventures. Recognizing the need for an incubator in the Rwandan entrepreneurship space, the Chamber of ICT in Rwanda established the knowledge Lab (*kLab*) in 2012 as an incubation and innovation center in ICT. About 200 start-ups have registered their projects with kLab and about 60-80 entrepreneurs are regularly present at the facility.

StartUpWave provides a value proposition not just to entrepreneurs, but also to incubators

A challenge faced by many tenants of kLab and a challenge for many startups in Rwanda is to turn their idea into a business plan and achieve milestones to progress in their entrepreneurial journey. Many klab entrepreneurs have high ambitions and good ideas; however, many find it difficult to move to the next step, validate the idea in the market, and develop a viable revenue model. They find it difficult to develop a business model that will attract funding from third parties such as banks, investors or incubators. While klab has been successful in providing ad-hoc support and mentorship, structured milestone-tracking was lacking. To address this gap, StartUpWave with the help of GIZ Rwanda was piloted with 15 entrepreneurs in klab as a possible solution to assist startups in the early phase of their journey. The pilot showed that StartUpWave on one hand offers value to the entrepreneurs, while on the other hand helping incubators to provide structured, milestone-based service offerings, that allow performance tracking of enterprises. As a result, klab will now use StartUpWave as a sourcing tool for evaluating incoming applications. Based on the score entrepreneurs receive on StartUpWave, an incubation and milestone plan will be developed. The StartUpWave module hence helps entrepreneurs to structure their ideas, thereby saving time post being on-boarded as a kLab tenant.

3. Conclusion: Building a Virtual Ecosystem for Social Entrepreneurs

Lessons from StartUpWave: Using technology to democratize incubation

After more than a year of pre-incubation support through StartUpWave in India and a pilot test in Rwanda, the thought process has been validated: Intellectap's strength in the physical world can be translated in the virtual world by leveraging digital technology. As Intellectap will scale-up StartUpWave, it will build on the following lessons:

Reach

- Onboarding of enterprises into the virtual world can happen through a combination of online and offline events such as business plan competitions, hackathons, and speed-dating sessions. For some entrepreneurs building a relationship with the service provider face-to-face drive the decision to take advantage of the online-offering. Periodic offline events such as thematic workshops and investor meet-ups can be used to strengthen the network.
- Providing business support requires a large network of physical partners such as incubators, accelerators, investors, service providers, and business advisors that are in the geographic proximity of the entrepreneur and have the ability to provide and mobilize local knowledge and networks in the relevant geographies.
- Adapting workflows for different kind of enterprises is necessary, as product and service enterprises need different kinds of support. Product start-ups require a lot more in-person support for product development in the incubation phase. Accordingly, workflows need to be customized for different kinds of enterprises.
- Reaching out to women entrepreneurs requires targeted outreach. Women entrepreneurs often have limited access to traditional forms of start-up support. On average, women have little to no access to portals and information about entrepreneurship support as compared to men. A targeted approach with content and knowledge sharing focused on key challenges of women entrepreneurs ensures more interest from women entrepreneurs.

Scale

- Reaching enterprises at scale requires a combination of customized and standardized, technology-enabled support. Web-content that can be accessed on demand and for self-learning such as videos, checklists and online modules need to be combined with one-on-one mentoring that can cater to more complex support needs.
- Scaling-up virtual support depends on the incentives given to the stakeholder that are active on the platform. In order to ensure greater mentor and partner activity, it is important that the enterprise pipeline is continuous and robust. This will serve as an incentive for stakeholders to contribute.
- Providing a continuum of support for idea stage to scale-up stage ensures that enterprises stay on the platform. Stage appropriate support from experts, different kind of online-demo days as well as meaningful peer-to-peer mentoring will keep enterprises engaged on the platform.
- Sharing success stories and enterprises feedback can help to increase enterprise traction.

Resource Efficiency

- Increasing efficiency of resources can be done through a lean core team that manages the relationships and ensures smooth functioning of the workflows in combination with high quality external mentors that communicate with entrepreneurs through ICT-enabled tools.

- Engaging entrepreneurs in peer-to-peer exchange and facilitating advice from experienced entrepreneurs with a similar journey can increase the value, especially in the early stages of an entrepreneur's life-cycle. Using peer-to-peer mentoring formats such as online fora or discussions and crowd-intelligence can overcome resource shortages, while providing value to entrepreneurs.
- Onboarding a diversity of partners with different backgrounds is required to provide targeted and sector-specific advice. A diverse mentor pool is hence required to ensure that support can be provided to a large number of enterprises from different sectors.

Intellectap's vision: Expanding the virtual startup ecosystem

Encouraged by the StartUpWave experience, we aim to expand our services and bring the physical ecosystem online. Providing enterprises with virtual support for raising capital, offering crowd-funding services, and connecting investors and enterprises on the platform directly will be additional pillars of the virtual ecosystem. As a next step, *Intellectap's Impact Investing Network* will translate its core processes in the virtual world:

- Enterprises will be able to browse investors and deals.
- Accredited investors will be able to have quick access to enterprises across geographies.
- A match-making process will allow enterprises and investors to find each other much faster.
- An efficient on-boarding of service providers enables quicker deal closures.

By bringing the angel network online, we hope to rapidly grow the network from its current 90 member base to attracting a larger number of investors from across the globe. Leveraging Intellectap's global network of more than 25,000 investors, service providers, mentors, and practitioners and making them part of the virtual world, Intellectap believes that technology can be the key enabler to create an 'inclusive' entrepreneurial ecosystem. The core driver that motivates Intellectap to expand this ecosystem is the conviction that it is the entrepreneurial economy that will create solutions to some of the world's most challenging development problems.

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