



International  
Labour  
Organization

# ► Promoting sustainable entrepreneurship through business incubators, accelerators and innovation hubs

2021



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First published 2021

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Main title: Promoting sustainable entrepreneurship through business incubators, accelerators and innovation hubs

ISBN: 9789220353127 (print); 9789220353134 (Web PDF)

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Printed in Switzerland

▶ **Promoting sustainable  
entrepreneurship  
through business incubators,  
accelerators and innovation hubs**

2021

Marlen de la Chaux



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## ► Abbreviations

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<b>B2B</b>	business to business
<b>BDS</b>	business development service(s)
<b>BPC</b>	business plan competition
<b>FSP</b>	financial service provider
<b>GET Ahead</b>	Gender and Entrepreneurship Together
<b>ILO</b>	International Labour Organization
<b>MNC</b>	multi-national corporation(s)
<b>MSME</b>	micro, small, and medium-sized enterprises
<b>NGO</b>	non-governmental organization
<b>SIYB</b>	Start and Improve Your Business Program
<b>SME</b>	small and medium-sized enterprises

## ► Executive summary

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Incubators, accelerators, innovation hubs, entrepreneurship centers and similar organizations have become increasingly prominent tools for promoting entrepreneurship. As such, they merit attention: sustainable business creation is a key driver of job creation and innovations to facilitate sustainable business creation are therefore of central importance of policy-makers and practitioners.

From the perspective of the ILO, it is therefore crucial to understand whether incubators and accelerators can sustainably contribute to long-term enterprise and job creation or have a longer-term impact on local entrepreneurship ecosystems.

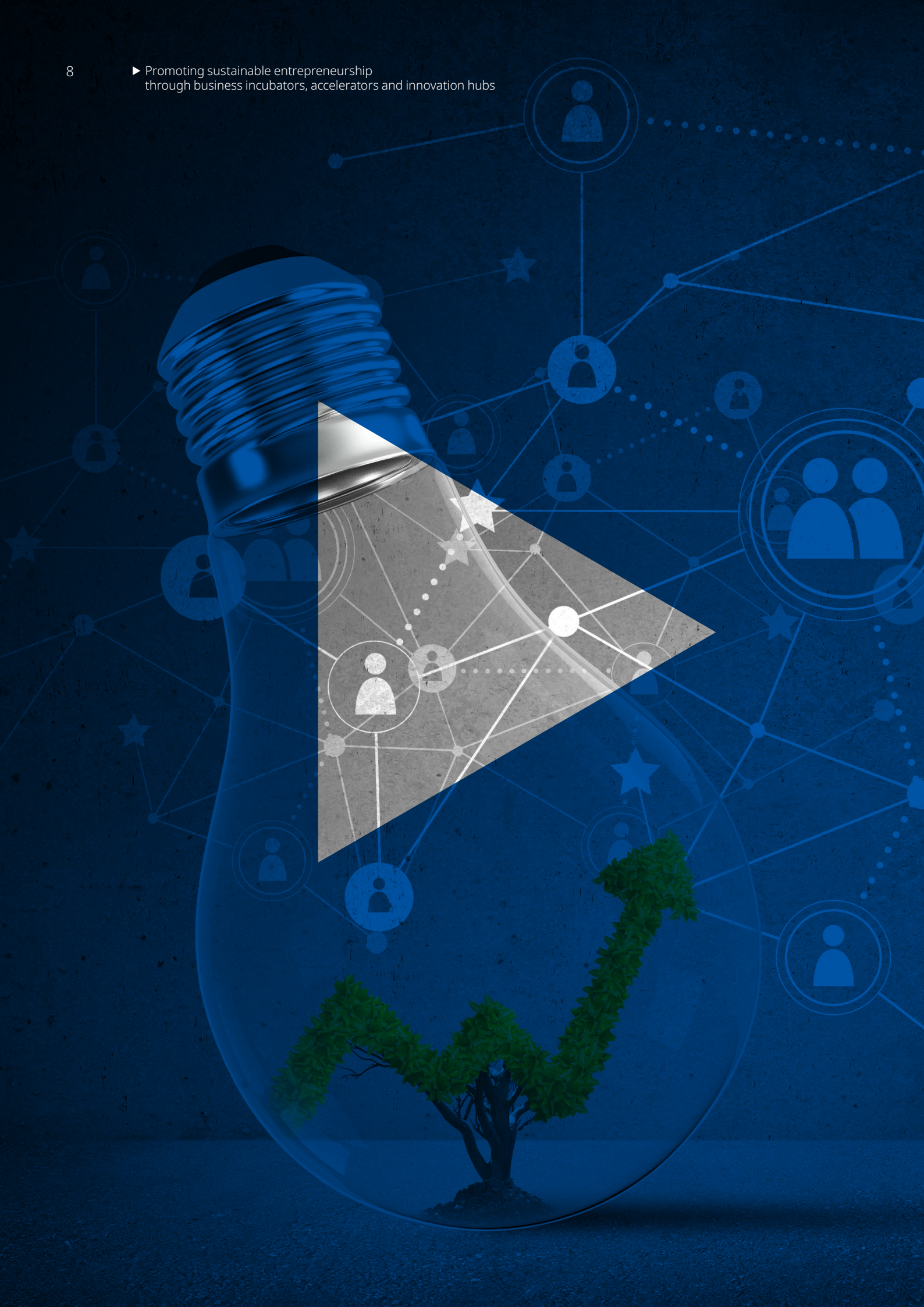
This document develops a typology of innovation organizations (denoted as “incubators and accelerators”) and compares how different types of innovation organizations ‘work’, i.e. their target groups, business models and their services. A subsequent chapter then provides a reflection on how incubators and accelerators differ from more traditional business development service providers and how they promote entrepreneurship. The document closes with critical reflections on the effectiveness and impact of incubators and accelerators as well as practical guidance on how to assess whether an innovation organization constitutes an appropriate solution for a given context. More specifically:

First, this document proposes a preliminary classification of three types of innovation organizations. Type 1 organizations (“idea and exploration stage”) target the very first instances of business creation, supporting entrepreneurs through the exploration of their start-up idea. Type 2 organizations (“early stage”) target early-stage start-ups, providing tailored support services to facilitate business creation and promote longer-term business development. Finally, Type 3 organizations (“growth stage”) support more established start-ups, offering individualized services to help them accelerating their growth.

Second, this document explains how incubators, accelerators and other innovation organizations work to support entrepreneurship development by offering integrated financial services and BDS, reducing time and resources that entrepreneurs need to access such support. Furthermore, it elucidates how such organizations strengthen entrepreneurship ecosystems by exercising a convening function for other entrepreneurship ecosystem actors, disseminating knowledge on entrepreneurship, and legitimizing an innovation and entrepreneurial culture. This document also reflects on different business models that work for the sustainability of incubators and accelerators, including private, public and blended models.

After establishing the main types, functions and business models of incubators and accelerators, the document discusses the opportunities and limitations of such organizations as tools for sustainable enterprise development. It first examines their role in legitimizing the entrepreneurial culture. Then, their position to support business creation, by reducing failure rates and accelerating enterprise growth. Finally, it discusses the use of incubators and accelerators to promote more inclusive entrepreneurship ecosystems, by providing targeted support and low entry barriers to often marginalized entrepreneurs, such as women, youth, migrants, or rural populations.

However, this document also emphasizes that incubators and accelerators do not constitute a magic bullet solution for promoting sustainable business creation. In a series of critical reflection, the document discusses the limited conclusive evidence on the impact and cost-effectiveness of incubators and accelerators vis-à-vis other forms of employment and enterprise promotion. Further rigorous and comparative evaluations are needed. Project managers should furthermore carefully assess whether incubators and accelerators constitute the right tool for entrepreneurship promotion for their context and the final chapter provides guidance on how to do so and, where relevant, how to build innovation organizations in a manner that promotes sustainability and local ownership. For that, identifying the right partners, building technical capacity and strengthening financial viability are essential.





## ► Introduction

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Incubators, accelerators, innovation hubs, centres of excellence and entrepreneurship hubs are springing up across the globe as new types of organizations that support and promote entrepreneurship. Following the successes of several incubators and accelerators in the US in supporting the emergence of high-growth companies such as Dropbox and Airbnb, they have been heralded as a new and highly effective type of organization to boost entrepreneurship.

The OECD estimates the existence of around 900 incubators and accelerators in the European Union<sup>1</sup>, and the African continent houses over 800 tech-focused incubators, accelerators, and innovation hubs alone<sup>2</sup>. Most importantly, evaluations indicate that incubators and accelerators increase start-up success rates and indirectly help create jobs, attract investments into start-ups, and strengthen the overall ecosystem for sustainable business creation<sup>3</sup>. Understanding how incubators, accelerators and hubs work and how they can be strengthened within their local entrepreneurship ecosystem is therefore important for practitioners who seek to promote entrepreneurship and facilitate sustainable business growth.

However, although much celebrated, not all is rosy: critics have found that most incubators and accelerators struggle to become financially viable and instead continue to rely on donor funding. The concern is that as soon as donor governments and philanthropists tire of incubators and accelerators and move on to the next innovative solution, not much will be left. For incubators and accelerators to fulfil their promise, it is therefore of equal importance that practitioners work toward building sustainable and thus lasting organizations. The importance of sustainability – a challenge that only a handful of incubators and accelerators have resolved so far – becomes even more important in contexts where Governments and policy-makers drive the entrepreneurship support infrastructure. Then, considerations of the cost-effectiveness of incubators and accelerators in comparison to other entrepreneurship promotion tools, such as stand-alone entrepreneurship trainings or access to finance programs become crucial (also see Critical Reflection 2: *How “cost-effective” are incubators and accelerators as tools for entrepreneurship promotion?*).

Before diving into such critical reflections however, this document begins by providing an introduction into how incubators, accelerators and similar organizations work, including differences between types of organizations and their operating models. The first part of this document also elucidates the different functions that incubators and accelerators have in local entrepreneurship ecosystems and reflects on different sustainability models. The second section then discusses the opportunities and limitations of incubators and accelerators as tools for sustainable enterprise development, including their role in promoting entrepreneurship and business creation, legitimizing entrepreneurship as an attractive career for youth, and facilitating inclusiveness of marginalized groups into local entrepreneurship ecosystems. The final section provides final reflections and recommendations regarding the role of incubators and accelerators in promoting sustainable enterprise development.

For purposes of legibility, this document uses the abbreviated form incubators and accelerators as an umbrella term to cover the collective of organizations (incubators, accelerators, innovation hubs, centres of excellence, start-up labs ...).

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1 OECD, 2019. Policy brief on incubators and accelerators that support inclusive entrepreneurship.

2 GSMA, 2019. [618 active tech hubs: The backbone of Africa's tech ecosystem](#)

3 See for example InfoDev's evaluation of its mobile technology incubators and accelerators across sub-Saharan Africa: [http://www.infodev.org/sites/default/files/mlab\\_and\\_mhub\\_publication\\_0.pdf](http://www.infodev.org/sites/default/files/mlab_and_mhub_publication_0.pdf)

▶ 1



# An introduction: Incubators and accelerators

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## The key takeaways from this section are:

- Incubators and accelerators are increasingly recognized as playing an important role in facilitating entrepreneurship and sustainable business creation, both of which are key drivers for job creation
- Incubators and accelerators often provide integrated financial services and BDS as “one-stop shops”, reducing time and resources that entrepreneurs otherwise need to expend to access such services
- Incubators and accelerators play an important role as entrepreneurship ecosystem champions by convening stakeholders and legitimizing entrepreneurship

## a. A quick typology

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Although much talked about, these types of organizations are exceedingly difficult to describe. Names and labels such as ‘hub’, ‘incubator’, or ‘accelerator’ tend to be used interchangeably, and many different definitions and working models exist. This makes it challenging to distinguish on the basis of self-assigned labels and instead calls for a differentiation based on key features.

This document proposes a preliminary definition of three types of organizations to help explain how different incubators, accelerators and innovation hubs work and to understand their role in supporting entrepreneurship. Type 1 organizations (“idea and exploration stage”) target the very first instances of business creation by supporting entrepreneurs through their idea generation and exploration phase. Type 2 organizations (“early stage”) work with early-stage start-ups, providing tailored support services to facilitate business creation. Finally, Type 3 organizations (“growth stage”) tend to support start-ups and young enterprises in their growth stage.

This is not an exhaustive typology, hence not all organizations conform to one of the types mentioned above. Moreover, blended models between the three types are also possible. Nonetheless, this preliminary distinction can help practitioners understand how different types of organizations work to support entrepreneurs and why.

## Type 1: Targeting the idea and exploration stage

**Aim:** Foster an entrepreneurship ecosystem and a general business environment that supports start-ups.

**Typical organization labels:** Innovation hub, innovation lab, entrepreneurship centre.

**Target:** very early-stage entrepreneurs, everyone interested in entrepreneurship, civil society actors, government.

**Business Model:** Usually a public model, where the hub is housed at a government agency or university (often attached to an engineering department or business school). Blended models also exist, where the organizations operates on a mix of public funding, grant funding from donor governments and UN agencies, and revenue from consulting and research services. Some also rent desk and/or office space to start-ups for additional revenue.

**Examples:** [iHub Kenya](#), [Jokkolabs](#) (West Africa); [Amazonian Entrepreneurship Centre](#) (Brazil).

**Services:** A wide range of services, not all specific to start-ups.

- an open co-working and meeting space with a free IT infrastructure (high-speed internet, a few computer work stations, charging docks for phones and laptops)
- various events open to all (e.g. Talks by high-profile entrepreneurs, presentations by civil society actors on business trends)
- often have a research/consulting arm that analyses broader trends on entrepreneurship in the context
- may also work on encouraging innovation more broadly, for example by engaging with technology MNCs and local SMEs to do skills development for youth and link young people to employment opportunities (iHub Kenya).

## Type 2: Targeting early-stage start-ups

**Aim:** Assist start-ups with longer-term business development (e.g. a minimum viable product, a prototype, and/or a sustainable business model).

**Typical organization labels:** Incubator, incubation centre, lab.

**Target group:** Early-stage start-ups (idea stage) where founders are showing high motivation and promise.

**Business model:** Incubators tend to be selective, choosing high-potential start-ups based on an application process. The classical business model sees the incubator take a share of the company's equity in exchange for the incubation services. The share tends to be quite high, as the investment is risky (the start-ups often have no proof that they can be profitable). When the business grows, the accelerators receive the return on investment of their share of the company. The income from such shares can be supplemented from revenue of renting out office space to SMEs and alumni businesses of the incubation program. Outside Europe and North America, however, most incubators also operate on blended income models, where a part of the income is secured from donor governments or corporate foundations.

**Examples:** [MEST](#) (Ghana); [Unreasonable East Africa](#); [Glocal](#) (Argentina); [Start-up Chile](#)

**Services:** Services are targeted at helping start-ups get from the idea stage to a viable offering and sustainable business model.

- seed funding
- often a 'mini-MBA' program in which the "incubation class", i.e. the start-up founders, receive basic business and management training
- access to networks of investors and mentors (though not as individualized as in accelerators)
- often culminates in a pitching competition/investor day, where investors are brought in to listen to the start-ups' ideas
- desk and/or office space as well as meeting rooms for the start-up as well as a free-of-charge IT infrastructure (high-speed internet, charging stations, reliable electricity with back-up generators).

## Type 3: Targeting the start-up growth-stage

**Aim:** To help start-ups rapidly (within a few months) achieve a level of growth that would otherwise take a year or two.

**Typical organization labels:** accelerator, acceleration centre.

**Target group:** Start-ups that have a minimum viable product, some traction, and a prototype.

**Business model:** Similar to incubators, accelerators are highly selective, choosing high-potential start-ups. They also take a share of the company's equity in exchange for the acceleration services. However, this share tends to be lower as the start-ups are already more established and have to prove profitability in order to be accepted into the accelerator. Here, blended or public business models are rare, and the revenue from the

selected high-growth enterprises tends to be sufficient to cover expenditures.

**Examples:** [mLab](#) (South Africa); [Y Combinator](#); [WOW Aceleradora de Startups](#) (Brazil)

**Services:** Accelerators usually accept only a handful of start-ups each year with programs that usually run between 3-9 months. As such, they offer highly individualized services:

- Access to mentors and investors
- desk and/or office space as well as meeting rooms for the start-up as well as a free-of-charge IT infrastructure (high-speed internet, charging stations, reliable electricity with back-up generators)
- Resources (financial, social, personal) to design a sustainable business (e.g. as needed by the start-up: legal services, PR services, design services, prototyping services).

## Other differentiating characteristics

### Industry / Sector

In addition to the typology proposed above, incubators and accelerators can also be distinguished by their sectorial focus. The incubator and accelerator movement started in the technology industry, and many organizations continue to focus either exclusively on technology entrepreneurship or on supporting entrepreneurs who seek to integrate technological and digital solutions into their product offering. Within the grouping of technology-focused incubators and accelerators, a further sub-group on hardware technology innovation is emerging. So-called Maker Spaces, for example the [FabLab](#) ("fabrication laboratory") community, offer entrepreneurs the space and machinery to develop and prototype hardware innovations.

Other sector-focused incubators and accelerators also exist. Organizations in rural areas tend to focus on agriculture and expand their service offering to demonstration plots and technical capacity building (in addition to broader business management training). Other incubators and accelerators take an explicit focus on promoting social enterprises and subsequently expand their networks and mentorship programs to include philanthropic organizations (see for example [SocialLab](#) in Latin America and [Artemisia in Brazil](#)). Green incubators are also increasingly prominent, and often offer additional know-how, capacity building, and other support on green business processes, effective waste management, eco-friendly sourcing, conservation considerations, and other environmental considerations to entrepreneurs, in addition to more generic business management, mentoring, coaching, and networking services (see for example the [Amazonian Entrepreneurship Centre](#)). Other sectorial foci are also possible, [AfriLabs](#) provides an overview over the African continent and similar compilations exist at the national level in many other countries.

## Target Group

Many incubators and accelerators also explicitly focus on a specific target group, which constitutes a further differentiating factor when comparing organizations. Often youth and particularly recent university graduates constitute the primary target group. In addition, several incubators and accelerators emphasize the promotion of women entrepreneurs, whereas others focus on providing support services to marginalized groups such as migrants and refugees. Particularly for marginalized groups, support services tend to be more intensive and span beyond BDS support to also include support on language training, legal and administrative questions, and network building beyond the immediate business context (see, for example, [SINGA](#) in France).

► **Critical Reflection 1:**  
**Do incubators and accelerators only help successful businesses become even more successful while leaving others behind?**

At first glance, the original incubators and accelerator models can be perceived to promote a type of highly exclusive entrepreneurship support by granting only the most promising businesses access to support services while leaving all other entrepreneurs empty-handed. However, it is also important to note that such highly selective types of organizations are found pre-dominantly in a handful of highly mature entrepreneurship ecosystems (e.g. Silicon Valley). More broadly, the majority of well-functioning entrepreneurship ecosystems globally tend to comprise a range of different incubators and accelerators, from type 1 organizations that target potential entrepreneurs at their idea stage to more selective type 3 organizations that work to scale extant businesses.

Especially contexts with a low prevalence of growth entrepreneurs and instead a high proportion of opportunity entrepreneurs tend to be characterized primarily type 1 (“idea

and exploration stage”) organizations, which are inclusive of all entrepreneurs and do not have selection criteria. On the one hand, this means that incubators and accelerators are helping facilitate transitions toward growth entrepreneurship for all. On the other, it is important to note that diversification of support services available to entrepreneurs is also crucial: having a handful of type 2 (“early stage”) and type 3 (“growth stage”) incubators and accelerators is vital to ensuring that successful entrepreneurs continue to receive relevant support services as their business grows.

In short, entrepreneurship ecosystems become inclusive when they serve different types of entrepreneurs. An equilibrium of different types of incubators and accelerators, targeting different entrepreneurial stages as well as different target groups is one way of ensuring such inclusiveness.

## b. What incubators and accelerators do: Supporting entrepreneurs and sustainable business development

The primary function of incubators and accelerators is to provide tailored and integrated business development support to entrepreneurs and young businesses in a “one-stop shop” modality.

### Info Box 1: What are financial and business development services?

Business development services (BDS) comprise a range of non-financial support services that are integral to the creation and development of sustainable businesses. This can include a myriad of services such as management capacity training, coaching, mentoring, business registration support as well as facilitating access to business networks and markets. Financial services comprise, for example, access to financial services such as loans, grants, bank accounts; facilitation of linkages to business investors and seed capital funders; and services to improve the financial management capacity of entrepreneurs. Frequently, financial and BDS provision are linked – either within the same institution or through partnerships across institutions.

Traditionally, financial services and BDS provision are ensured by a number of private and/or public institutions that provide specific services to interested businesses. For example, banks may provide low-cost loans to small enterprises, a local export agency may offer information about new markets and export opportunities, a training provider may help build business owners’ business management capacity, and a local mentoring network may offer to put business owners in touch with suitable mentors.

When financial services and BDS provision are compartmentalized as in the example below, entrepreneurs in turn need to invest substantial time and resources in order to identify and access the different services. This can be especially challenging for new businesses as they are unlikely to dispose of the time and resources required to engage with several institutions at once in order to access the variety of financial services and BDS provision they require. It is therefore not surprising that a range of studies have shown that financial services and BDS provision for entrepreneurs is most effective where services are combined<sup>4</sup>.

► **Image 1: Compartmentalized financial services and BDS is time and resource-intensive for entrepreneurs**



<sup>4</sup> For example, see: ILO, 2015. Synergies at work: does the combination of business training and access to finance produce extra benefits? Available at: [https://www.ilo.org/empent/areas/start-and-improve-your-business/WCMS\\_356021/lang--en/index.htm](https://www.ilo.org/empent/areas/start-and-improve-your-business/WCMS_356021/lang--en/index.htm)

Incubators and accelerators integrate financial services and BDS provision, creating a **one-stop shop for financial and business development services**. As such, they are particularly effective in reducing the time and resources that entrepreneurs need to spend in order to receive support. Many incubators and accelerators provide a combination of training services, mentoring and coaching as well as direct linkages and networking opportunities with investors and other financial service providers, MSMEs, and potential clients particularly for start-ups' B2B goods and services. Work and meeting spaces are usually also provided, which is especially important for early-stage entrepreneurs who may not yet have the resources to maintain their own office space. Business registration desks are also often physically integrated in the incubation centre and provide advice and support on business registration. This reduces the costs and other barriers that may be associated with business formalization. Moreover, given the integration of several services within one space, the specific combination of services can be tailored to the needs of entrepreneurs, depending on the maturity of their start-up. Studies show that incubators and accelerators increase the survival rates of start-ups through their one-stop shop financial services and BDS provision<sup>5</sup>.

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<sup>5</sup> Roberts PW, Davidson A, Edens G, Lall S. 2017. Accelerating startups in emerging markets: Insights from 43 Programs. Retrieved from <https://www.galidata.org>.



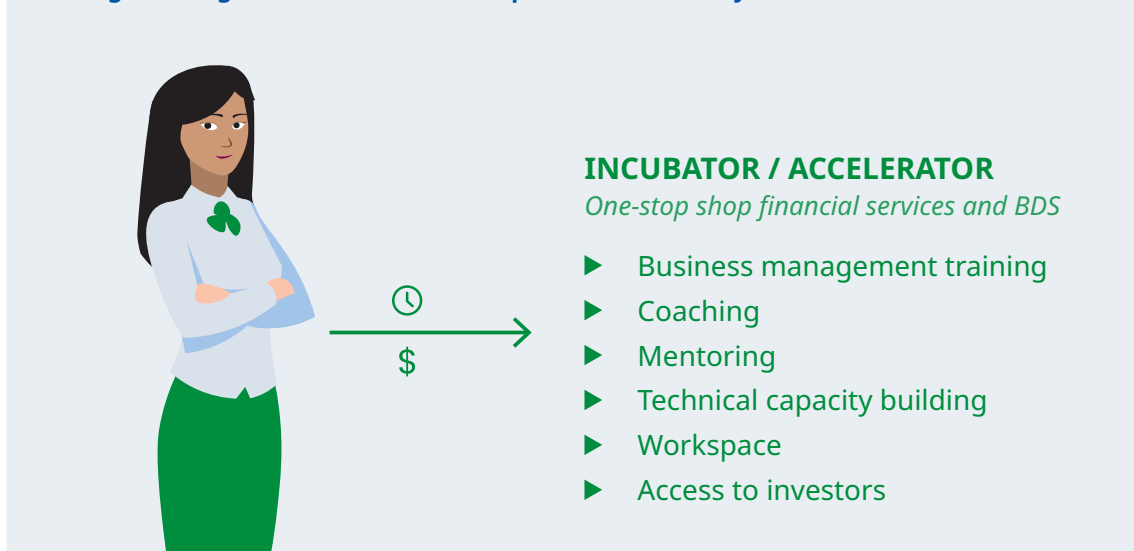
► **Table 1: Integrated support services offered by incubator and accelerator type\***

*\*This is neither an exhaustive list of services nor are all incubators and accelerators likely to conform to the distinction between types below. Instead, this provides an indicative description of the kinds of services that may be expected for each incubator and accelerator type*

SERVICE	TYPE 1 (idea and exploration stage)	TYPE 2 (early-stage)	TYPE 3 (growth-stage)
<b>Business Development Services</b>			
Training programs	Basic management competency trainings (generic)	Management competency training (targeted) - advanced business skills trainings (generic)	Tailored training sessions on advanced skills and competencies ("mini-MBAs")
Mentoring	In some instances, mentoring system between new and mature entrepreneurs may be offered	Usually formal or informal mentoring between entrepreneurs and successful program graduates	Usually formal mentoring system between entrepreneurs and successful business leaders
Coaching	In some instances, coaching services may be offered, often on ad hoc basis	Usually formal coaching services offered by staff or affiliated persons	Usually formal coaching services offered by staff or affiliated persons
Business registration support	Rarely constitutes part of the formal service offering	Registration desks or dedicated staff provide support	Rarely constitutes part of the formal service offering as business are already registered
Events	Frequent events, usually open to the public, on topics broadly linked to entrepreneurship.	Targeted and small events on dedicated topics related to business creation and growth, open only to members.	Targeted and small events on dedicated topics related to business creation and growth, open only to members.
Networks	Events open to public allow for networking with ecosystem actors.	Member-only events allow for networking. Pitching competitions and Demo Days facilitate linkages to investors.	Member-only events allow for networking. Pitching competitions and Demo Days facilitate linkages to investors.
Work space	Open space, usually free to use by all.	Members have dedicated work spaces, including meeting rooms and, in some instances, office set-ups.	Members have dedicated office set-ups and meeting rooms.
<b>Financial Services</b>			
Financial literacy training	General financial literacy training	Advanced financial planning support usually available.	Advanced investment and financial planning support and training usually available.
Financing & Investment through the incubator/accelerator	None	Small seed investment usually in exchange for company stock	Seed investment usually in exchange for company stock
Access to investors	Indirect opportunities to connect with investors at networking events	Direct links to investors through dedicated member-only access	Direct links to investors through dedicated member-only access
Access to loans	Specific provisions are rare	Org. usually has direct links to selected banks that can be explored	Org. usually has direct links to selected banks that can be explored
Access to financial services	Indirect opportunities to connect with financial service providers (FSP) at networking events or supporting application for seed funding	Org. usually has direct links to selected FSPs that can be explored	Org. usually has direct links to selected FSPs that can be explored

In addition to integrating financial services and BDS, incubators and accelerators also play a key role in **linking entrepreneurs to networks and opportunities that exist in the local business environment**. Particularly young or new entrepreneurs often lack the legitimacy and connections to approach more established businesses (who could constitute clients), banks, and business communities. Incubators and accelerators play an important part in linking entrepreneurs to such more established networks that can, in turn, help build partnerships and market access for new businesses. First, regular events and conferences bring local and, in many instances, international entrepreneurs, business leaders, SMEs, business communities, and investors to the space. This makes it easy for entrepreneurs to come into contact with such actors in an informal, low risk setting and to build partnerships and client relationships. Second, incubators and accelerators facilitate links to outside actors by providing an important signalling function in terms of the start-up's business potential. An entrepreneur and company that have gone through a selective, well-regarded incubator or accelerator signal to investors and clients that they have been vetted and that an incubator or accelerator has actively invested into further refining the start-up's potential. As a result, even after graduating from an incubator or accelerator, many enterprises continue to derive benefits for their business from their affiliation with the organization.

► **Image 2: Integrated financial and BDS provision offered by incubators and accelerators**



### c. What incubators and accelerators do: Strengthening entrepreneurship ecosystems

Many incubators and accelerators do much more than integrated 'one-stop shop' financial services and BDS provision, and networking for their entrepreneurs. In addition, most incubators and accelerators also work on promoting and strengthening the overall entrepreneurship ecosystem. This work is often less visible than their function as service providers but equally important.

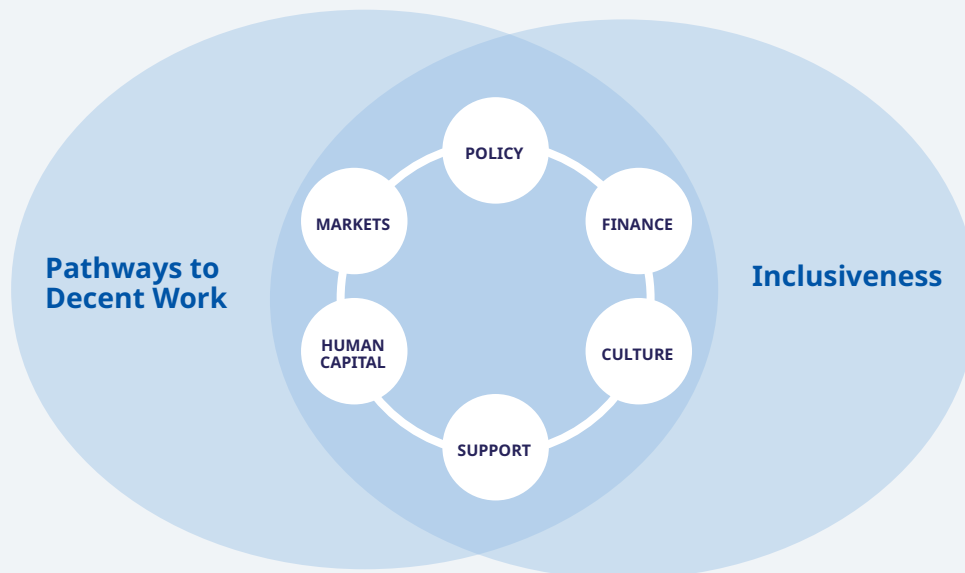
An "entrepreneurship ecosystem" captures the range of actors and functions that work together to create an enabling environment for entrepreneurship and sustainable business creation. Although there are many definitions of what exactly comprises an ecosystem exist, the most dominant is arguably Isenberg's entrepreneurship ecosystem, which comprises six functions (support, finance, culture, access to markets,

human capital, and policy) that work together to create a supporting environment for business creation. The ILO's Inclusive Entrepreneurship Ecosystems model (see box 2 below) further emphasizes dimensions on inclusiveness and creating pathways to decent work as important components.

#### Info Box 2: An ILO approach to Entrepreneurship Ecosystems

Building on Isenberg's model, the ILO has developed the Inclusive Entrepreneurship Ecosystems Approach by extending the original framework with a view to promoting inclusive entrepreneurship ecosystems, i.e., making business creation and entrepreneurship a viable pathway to decent work for all.

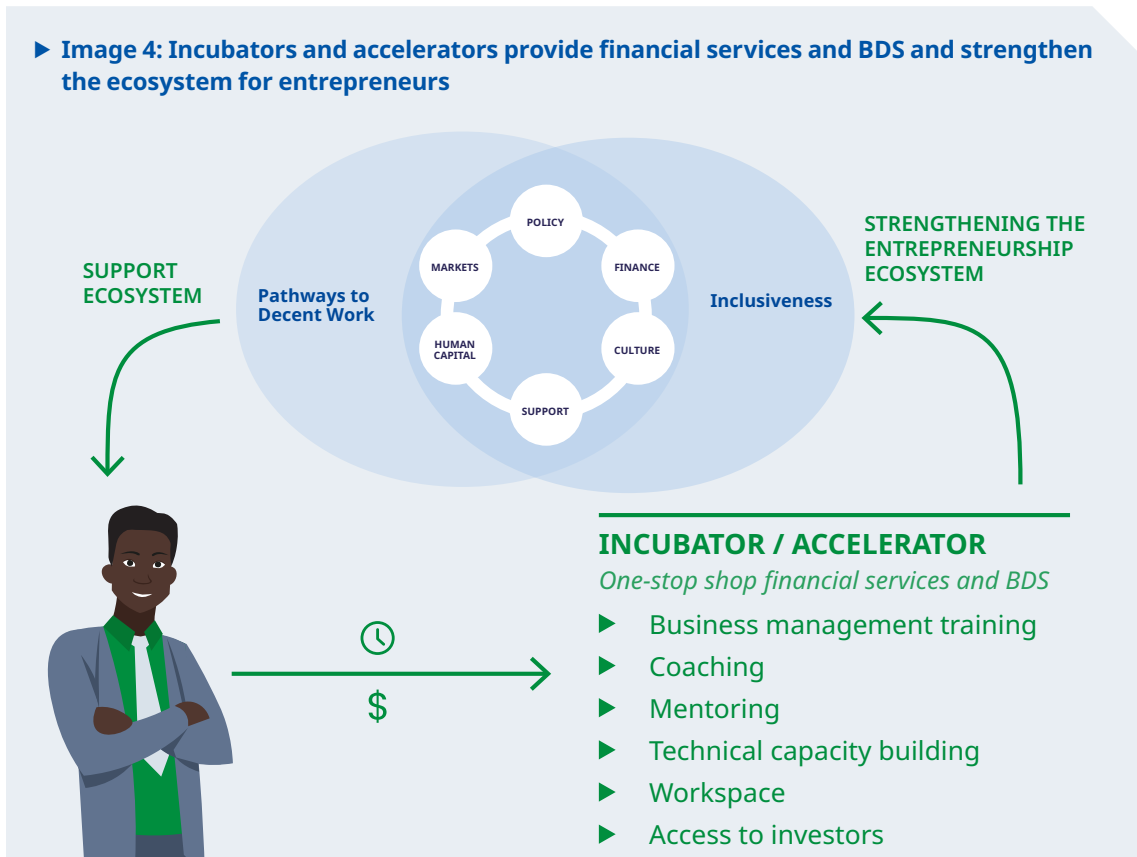
#### ► Image 3: The ILO's Inclusive Entrepreneurship Ecosystem Framework



The inclusive entrepreneurship ecosystems framework introduces two cross-cutting dimensions to emphasize the importance of inclusive entrepreneurship ecosystems that support business and, ultimately, quality job creation for all. The two cross-cutting dimensions are:

- **Pathways to decent work.** Entrepreneurship constitutes an important pathway to decent work. New businesses drive job creation, and an important role of an inclusive entrepreneurship ecosystem is to ensure that the jobs created are quality jobs, i.e., characterized by decent working conditions. To achieve this, considerations regarding quality job creation through entrepreneurship need to be embedded in the entrepreneurship ecosystem.
- **Inclusiveness.** Entrepreneurship ecosystems not only differ by context but also between target groups in a given context. Although, for example, financial and business development services may exist in a given context, access to them is rarely equal among all entrepreneurs. Furthermore, informal norms and values (the Culture component of the ecosystem framework) may impede business creation among marginalized groups, such as women, youth, migrants or other populations. Often, differences in access to the entrepreneurship ecosystem are implicit and promoting an inclusive ecosystem that works for all entrepreneurs therefore requires a clear understanding of the target group(s) and sensitivity to structural and take-for-granted dynamics in how different target group(s) experience the extant entrepreneurship ecosystem.

► **Image 4: Incubators and accelerators provide financial services and BDS and strengthen the ecosystem for entrepreneurs**



Often less visible to outsiders, many incubators and accelerators invest substantial time and effort into strengthening the local entrepreneurship ecosystem.

First, most incubators and accelerators exercise a **convening function for ecosystem actors**. Most visibly, incubators and accelerators bring together financial service and BDS providers such as financial institutions, training institutes, mentoring networks, in their space. Moreover, many incubators and accelerators also engage with policy-makers, universities, and thought leaders on topics related to entrepreneurship. Through conferences and larger events organized and hosted by the incubator or accelerator, such actors are brought together at the incubators’ or accelerators’ space. One visible consequence is that the more actively incubators and accelerators exercise this convening function, the better aligned ecosystem actors become. By regularly interacting in informal settings afforded by incubators and accelerators, ecosystem actors increase their awareness about the ecosystem in which they are embedded and how their work relates to that of others. As a result, coordination and complementarity improve, creating a more effective entrepreneurship ecosystem.

Second, many incubators and accelerators position themselves as **thought leaders on entrepreneurship** by offering research and consulting services on topics related to entrepreneurship, BDS, and sustainable enterprise development. Through their daily work with entrepreneurs as well as their convening role within the entrepreneurship ecosystem, incubators and accelerators are often perceived as having their “finger on the pulse” in terms of the latest developments and trends in the local entrepreneurship and business community. Many incubators and accelerators subsequently become important disseminators of knowledge on entrepreneurship and publish flagship reports, often in collaboration with high-profile international organizations, Governments, and NGOs. In addition to raising awareness on entrepreneurship among the wider public, such collaborations and publications further strengthen the

effectiveness of the local entrepreneurship ecosystem by advancing understandings of best practices and lessons learned for entrepreneurship promotion.

Third, incubators and accelerators have an important **legitimizing function locally and internationally** regarding the entrepreneurial opportunity in a given city or country. As such, they tend to provide a first entry point for foreign actors, such as international investors, into a local entrepreneurship ecosystem. What is more, incubators and accelerators can contribute to the integration of the local entrepreneurship ecosystem with regional and global market opportunities. Particularly regional and global networks between incubators and accelerators in different cities and countries reduce barriers of entry for entrepreneurs based at an incubator or accelerator to those foreign markets.

## d. How incubators and accelerators work: Business models and sustainability

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Understanding how incubators and accelerators work, i.e., their business models and sustainability strategy, is just as important as understanding what incubators and accelerators do. Yet business models and sustainability considerations have received comparatively little attention by practitioners and researchers so far, especially regarding incubators and accelerators in the Global South.

The original business model of incubators and accelerators is relatively simple. The incubator or accelerator selects high-potential start-ups and, in exchange for shares in the company, helps refine and improve the start-ups' value proposition and market readiness. Once the start-up grows, runs a profit and ultimately "exits" (i.e. company is sold) the incubator or accelerator receives income through the return on the company's shares. As growth potential in early-stage start-ups is difficult to assess reliably, most incubators and accelerators anticipate that only a small percentage of start-ups will generate substantial return on investment, but that this return will then cover the organization's overall operating costs. However, it is important to note that outside North America and Europe, only a handful of incubators and accelerators have been able to achieve financial sustainability through this business model.

The challenge for many incubators and accelerators is that the provision of integrated BDS offerings comes with comparatively high fixed costs (e.g. office space, infrastructure, agreements with training providers). Many incubators and accelerators therefore require immediate liquidity to cover these costs and cannot afford to wait for a potential return on investment sometime in the future. Moreover, the return on investment model predominantly works in entrepreneurship ecosystems where rapid start-up scale and exit are the norm. This is not the case in most economies, where entrepreneurs build businesses that grow slowly and opportunities to exit are few and far between. A further challenge is that this model is only applicable to type 2 ("early stage") and 3 ("growth stage") organizations that select extant start-ups. For type 1 organizations ("idea and exploration stage"), who provide a more open and flexible range of services, this business model is simply not realistic as entrepreneurs are only in the process of forming a first start-up idea. Finally, it is important to consider that a 'return on investment' business model requires that the incubator or accelerator is highly selective and exclusively works with start-ups that have potential to scale rapidly. However, a business model founded on the premise of selectivity is unlikely to be practicable for incubators and accelerators aiming to facilitate inclusiveness of the entrepreneurship ecosystem or endeavouring to promote entrepreneurship broadly among target groups such as youth (also see Critical Reflection 2: *How cost-effective are incubators and accelerators as tools for entrepreneurship promotion?*).

Given these challenges, it is therefore not surprising that a recent analysis by International Trade Centre of technology-focused incubators and accelerators in Africa finds that most technology incubators and

accelerators are reliant on donor contributions<sup>6</sup>. Data from the United Nations Framework Convention on Climate Change estimates that “fewer than five accelerators worldwide support themselves on revenue generated from equity in their successes<sup>7</sup>”. This poses significant challenges in terms of sustainability as the incubators and accelerators are then not financially viable beyond donor support.

However, many incubators and accelerators have also been exploring different modalities to ensure sustainability and reduce dependency on temporary donor financing. The below provides a brief description of four pathways to sustainability. It is important to note that, in reality, business models for incubators and accelerators are constantly evolving and models that blend aspects of different business models exist.

### 1) Return on Investment business Model

The traditional business model foresees a highly selective incubator or accelerator, where accepted entrepreneurs exchange equity in their start-up for service provision. Pure private business models are usually found in incubators and accelerators that provide access exclusively to high-growth start-ups and are common to mature entrepreneurship ecosystems, as for example California’s Silicon Valley.

### 2) Auxiliary Services business Model

Most incubators and accelerators are unable to recover their costs through a return on investment model and instead offer a variety of auxiliary fee-based services. The precise mix of services and associated fees is unique to each incubators and accelerators and should be based on a solid understanding of a.) the different groups that the incubator or accelerator intends to target and their needs, b.) the target groups’ willingness to pay for services that address their needs, c.) a business plan outlining the costs and expected returns associated for each auxiliary service, and the implications for the overall financial sustainability of the incubator or accelerator. Examples of auxiliary services include charging a fee for BDS services offered to entrepreneurs and businesses, renting out co-working space to SMEs, renting out event space, and offering fee-based consulting and research services for Ministries, development organizations, and SMEs. In distinction to model 4 (blended business models), all sources of funding in this model are private.

This model is common across all types of entrepreneurship ecosystems and enables incubators and accelerators to respond to changes in their operating environment as they are not dependent on a singular source of funds.

### 3) Publicly-funded business model

Many incubators and accelerators are publicly funded. Often, such organizations are embedded within a public agency or constitute a distinctive agency attached to a line ministry. Increasingly, incubators and accelerators are also being attached to universities, which has the added benefit of providing easy access to a key target group (youth). This model is frequently employed where a key concern of the accelerator or incubator is the inclusion of early-stage entrepreneurs or of a specific target group (e.g. youth or marginalized populations). This financing model is also frequently found in less mature ecosystems and in ecosystems characterized by heavy government support.

<sup>6</sup> International Trade Centre, 2020. Supporting start-ups : Tech hubs in Africa. Second Edition.

<sup>7</sup> UNFCCC. 2018. Catalysing finance for incubators and accelerators: addressing climate change through innovation. Bonn: United Nations Framework Convention on Climate Change.

## 4) Blended business models

Mixed models can take many forms but usually describe a blend of public and private income sources. Public funding usually constitutes a reliable income base and are combined with private financing streams from auxiliary services or fees. This model tends to be characteristic of semi-mature ecosystems and ecosystems with well-developed private and public actors.

### ► Critical Reflection 2:

#### How cost-effective are incubators and accelerators as tools for entrepreneurship promotion?

Especially for donors and governments, cost-effectiveness (or Value for Money; VFM) is an important factor when considering investments in incubators and accelerators. Simply put, cost-effectiveness evaluates whether the same results could have been achieved for less money<sup>1</sup>. While a simple concept, measuring cost-effectiveness is challenging. To date, there is no conclusive evidence regarding the cost-effectiveness of incubators and accelerators, a familiar gap that exists for nearly all entrepreneurship promotion tools (e.g. training, coaching, mentoring, market development, policy).

Nonetheless, several reflections can help to gain an initial understanding of cost-effectiveness: The first step is to define an end-result against which costs of an incubator or accelerator are then measured. This could simply be the number of entrepreneurs served. In this case expected cost effectiveness of incubators and accelerators is likely limited: the organizations have relatively high fixed costs (physical space, equipment, full-time staff), especially when compared to coaching or mentoring schemes, and serve only a number of entrepreneurs (especially Type 2 and 3 organizations). If the end-result against which costs are measured, however, is instead the number of growth-oriented businesses or new jobs created, cost-effectiveness of incubators and accelerators improves. Especially Type 2 and 3

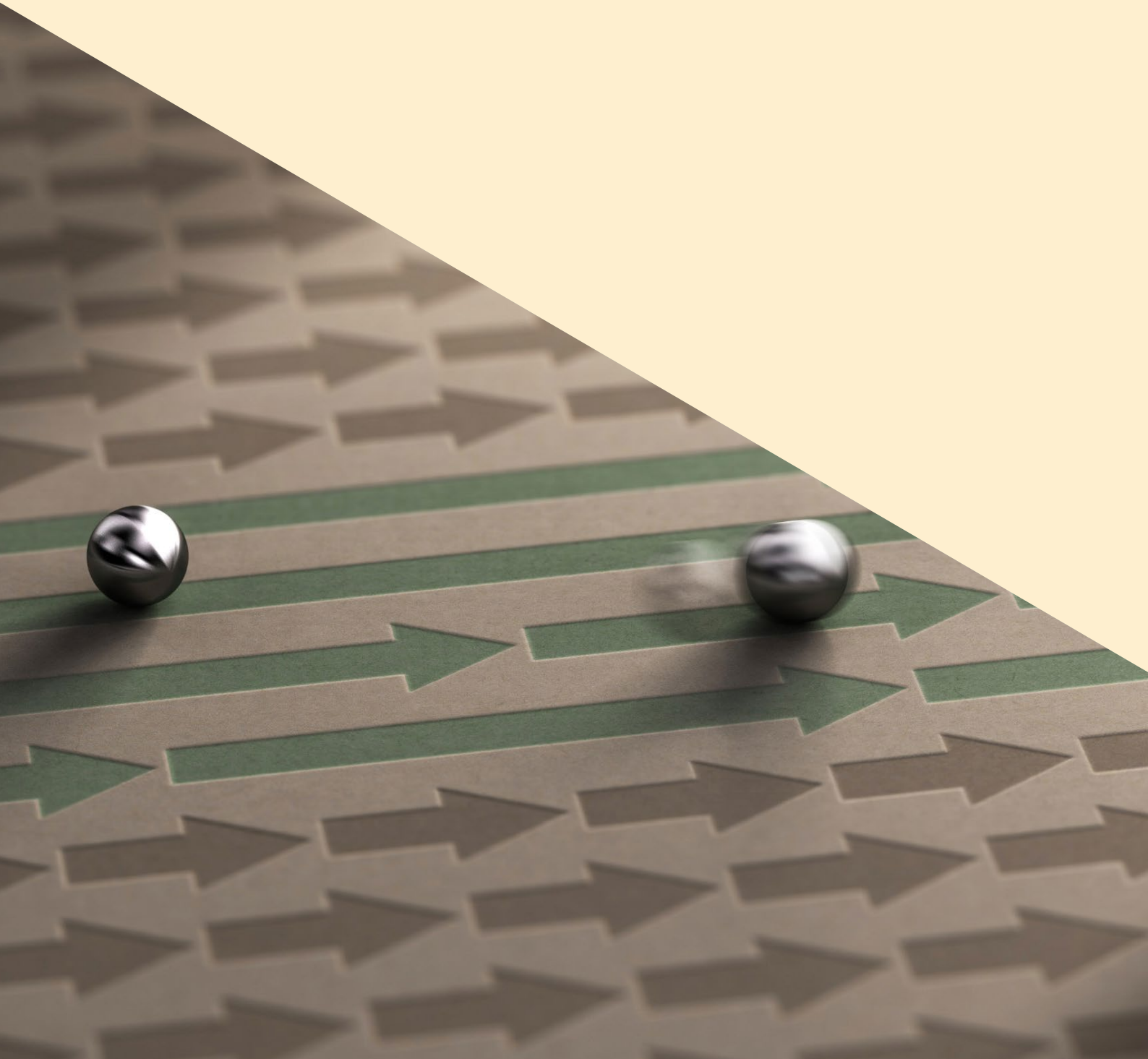
organizations work with businesses to transform them into growth-oriented job-creating businesses (for a review of latest evidence on how effective they are at achieving this, see section 2a).

Finally, distinguishing direct and indirect impact also matters to determining cost-effectiveness, especially for tools and approaches that seek to achieve systemic change. Many incubators and accelerators promote entrepreneurship at two levels: one, the direct beneficiary level discussed above and, two, the ecosystem level by improving the functioning and legitimacy of the entrepreneurship ecosystem. Impact at the ecosystem level takes time and is challenging to measure but is important to reflect in cost-effectiveness calculations.

In summary, while cost-effectiveness is an important concept to consider for all entrepreneurship promotion (and development) programs, what cost-effectiveness means for a specific entrepreneurship development tool, such as incubators and accelerators, in a given context depends on the end-results against which costs are measured and on the time horizon. The cost-effectiveness of incubators and accelerators is likely to shift depending on how these two variables are defined.

<sup>1</sup> OECD, 2012.: Value for Money and International Development. Available at: <https://www.oecd.org/dac/effectiveness/49652541.pdf>

# ▶ 2





# Incubators and accelerators as tools for sustainable enterprise creation and development

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## The key takeaways from this section are:

- When embedded within the local entrepreneurship ecosystem, incubators and accelerators can constitute effective tools to promote sustainable enterprise creation and growth. Specifically, incubators and accelerators directly support business creation by reducing failure rates and accelerating enterprise growth.
- Incubators and accelerators may also constitute powerful tools to increase the inclusiveness of entrepreneurship ecosystems, by providing targeted support and low entry barriers to otherwise marginalized entrepreneurs, for example women, youth, migrants, or rural populations.
- Conclusive evidence on the impact of incubators and accelerators, and relating such impact to cost-effectiveness, is still limited. As a result, all conclusions are preliminary and further rigorous and comparative evaluation of the effectiveness of incubators and accelerators vis-à-vis other forms of employment and enterprise promotion is needed.

## a. Supporting business creation and growth

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Much celebrated for their potential to drive entrepreneurship and business growth, the actual impact of incubators and accelerators has been difficult to measure. In part, this is due to the loose terminology through which descriptors such as incubators and accelerators have become an umbrella term describing any type of organization that offers integrated BDS to entrepreneurs. As a result, impact studies may be comparing apples and oranges when they study the impact of organizations branding themselves as “incubators”, “accelerators” or “innovation hubs<sup>8</sup>”.

With this in mind, a growing body of research examining how incubators and accelerators impact enterprises survival and growth has generated mixed results. Several rigorous statistical analyses with large, multi-country

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8 International Trade Centre, 2020. Supporting start-ups : Tech hubs in Africa. *Second Edition*.

data sets found that business who participate in an acceleration or incubation program show improved business growth when compared to a control group of comparable non-incubated firms. The largest of such studies covered 42 accelerators in 9 countries (among them 6 in emerging markets), and concluded that the positive effect of incubators and accelerators on firm growth is especially linked to firms' improved ability to attract investments and capital<sup>9</sup>.

In studies on less mature entrepreneurship ecosystems, incubators and accelerators are found to have a positive effect on enterprise survival and growth. Research on the impact of incubators in Kenya, for instance, found positive effects on business growth of incubated firms<sup>10</sup>. A multi-case analysis of incubators in China, Israel and Brazil came to a similar conclusion<sup>11</sup>. In more mature ecosystems, in contrast, researchers have found less pronounced effects. A study conducted in Germany on five incubators found that there is no significant difference on firm survival between incubated and non-incubated enterprises<sup>12</sup>. Although the author of the study did not make this conclusion, incubators and accelerators in mature entrepreneurship ecosystems may have a less pronounced effect on entrepreneurs because high quality financial services and BDS provision are already relatively easily available to all at low cost.

To make matters even more complicated, incubators and accelerators may also have spillover effects onto the wider entrepreneurship ecosystem in which they operate and therefore onto companies who are not direct recipients of the incubators' and accelerators' services. Such spillover is an important type of impact yet exceedingly difficult to measure conclusively. Although initial research exists<sup>13</sup>, more work is needed to understand how incubators and accelerators shape their local entrepreneurship ecosystem. What is more, positive spillovers from incubators and accelerators to non-affiliated businesses makes it more difficult to isolate incubators' and accelerators' impact on incubated/accelerated businesses compared to non-incubated/non-accelerated businesses.

So, what are we to conclude in terms of how incubators and accelerators impact entrepreneurship and business growth? Overall, initial rigorous analyses are showing that incubators and accelerators positively affect business survival and growth. Nonetheless, it is important to note that they comprise an extremely diverse set of organizations, and their impact is determined not only by the quality of their services to entrepreneurs but also by the maturity of the local entrepreneurship ecosystem in which they operate. Further, rigorous evaluations across countries and types of organizations are therefore required in order to reach evidence-based conclusions on their impact.

9 Roberts PW, Davidson A, Edens G, Lall S. 2017. [Accelerating startups in emerging markets: Insights from 43 Programs](#). Also see: Stokan, Thompson, and Mahu, 2015. [Testing the differential Effect of Business Incubators on Firm Growth](#). *Economic Development Quarterly*.

10 Mungai and Njeru, 2015. [Effects of Business Incubator Services on Performance of Business Ventures at Nairobi Incubation Lab, Kenya](#). *International Journal of Science and Research*.

11 Sacarmuzzi, E. 2002. [Incubators in Developing Countries: Status and Development Perspectives](#). *InfoDev*.

12 Schwartz, M. 2012. [A control group study of incubators' impact to promote firm survival](#). *The Journal of Technology Transfer*.

13 Van Rijnshoever, F. 2020. [Meeting, mating, and intermediating: How incubators can overcome weak network problems in entrepreneurial ecosystems](#). *Research Policy*.

## b. Fostering entrepreneurship and innovation culture

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Attitudes and cultural norms toward entrepreneurship are often invisible barriers that prevent people from starting a business or fully engaging in entrepreneurship. Incubators and accelerators can have a profound impact on how entrepreneurship is being perceived locally. First, they often constitute the place where entrepreneurship “happens”. In cultural contexts where entrepreneurship is not perceived to be a legitimate career choice incubators and accelerators help legitimize entrepreneurship by enhancing resemblance to more traditional office-based jobs that may be considered more desirable career choices. For example, incubators and accelerators provide entrepreneurs with a work space thereby imitating traditional notions of what constitutes ‘work’: entrepreneurs – just like other workers – commute to and from work, observe ‘working hours’ and so on. Particularly young university graduates report that this has helped legitimize their decision to pursue a start-up among their family and friends<sup>14</sup>.

Second, incubators and accelerators disseminate success stories of entrepreneurs through press articles, videos, events, and interviews. This creates a strong pull in the local context as many become curious about entrepreneurship upon learning of success stories. Finally, incubators and accelerators often link local entrepreneurial initiatives to regional and global movements by disseminating information in their global incubator and accelerator communities, therefore amplifying success stories and creating positive reinforcement in the local context. [Afrilabs](#), a community of Africa-based incubators and accelerators, is one such example. In addition to compiling information, news, and best practices on a website, Afrilabs regularly organizes regional events that bring together practitioners and entrepreneurs.

## c. Promoting more inclusive entrepreneurship ecosystems

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In addition to directly supporting business creation and strengthening the overall entrepreneurship ecosystem, many incubators and accelerators play a crucial role in making entrepreneurship more inclusive. Evidence shows that incubators that focus on inclusive entrepreneurship, by specifically catering to, for instance, ethnic minority groups<sup>15</sup> or youth<sup>16</sup> are effective in helping entrepreneurs in the target group build and grow sustainable businesses.

Specifically, **early-stage entrepreneurs** can struggle to access more traditional financial services and BDS either because they cannot afford the services or because services are not tailored to their needs. Type 1 organizations (“idea and exploration phase”) can fill this void as they explicitly target entrepreneurs’ at the idea and early business stage with tailored support services. The integrated service offering is especially attractive to early-stage entrepreneurs and new businesses. Most early-stage entrepreneurs have yet to devise a business model and clear value proposition of their business idea. Their businesses tend to be characterized by a high degree of ambiguity. This, in turn, requires flexibility in terms of the

14 de la Chaux, M. & Haugh, H. 2016. Institutional field building in adverse environments : A case study of Nairobi, Kenya. *Academy of Management Proceedings*. Available at: <https://journals.aom.org/doi/abs/10.5465/ambpp.2016.12930abstract>

15 Lyons, E. and L. Zhang (2017), “The Impact of Entrepreneurship Programs on Minorities”, *American Economic Review*, Vol. 107, pp. 303-307

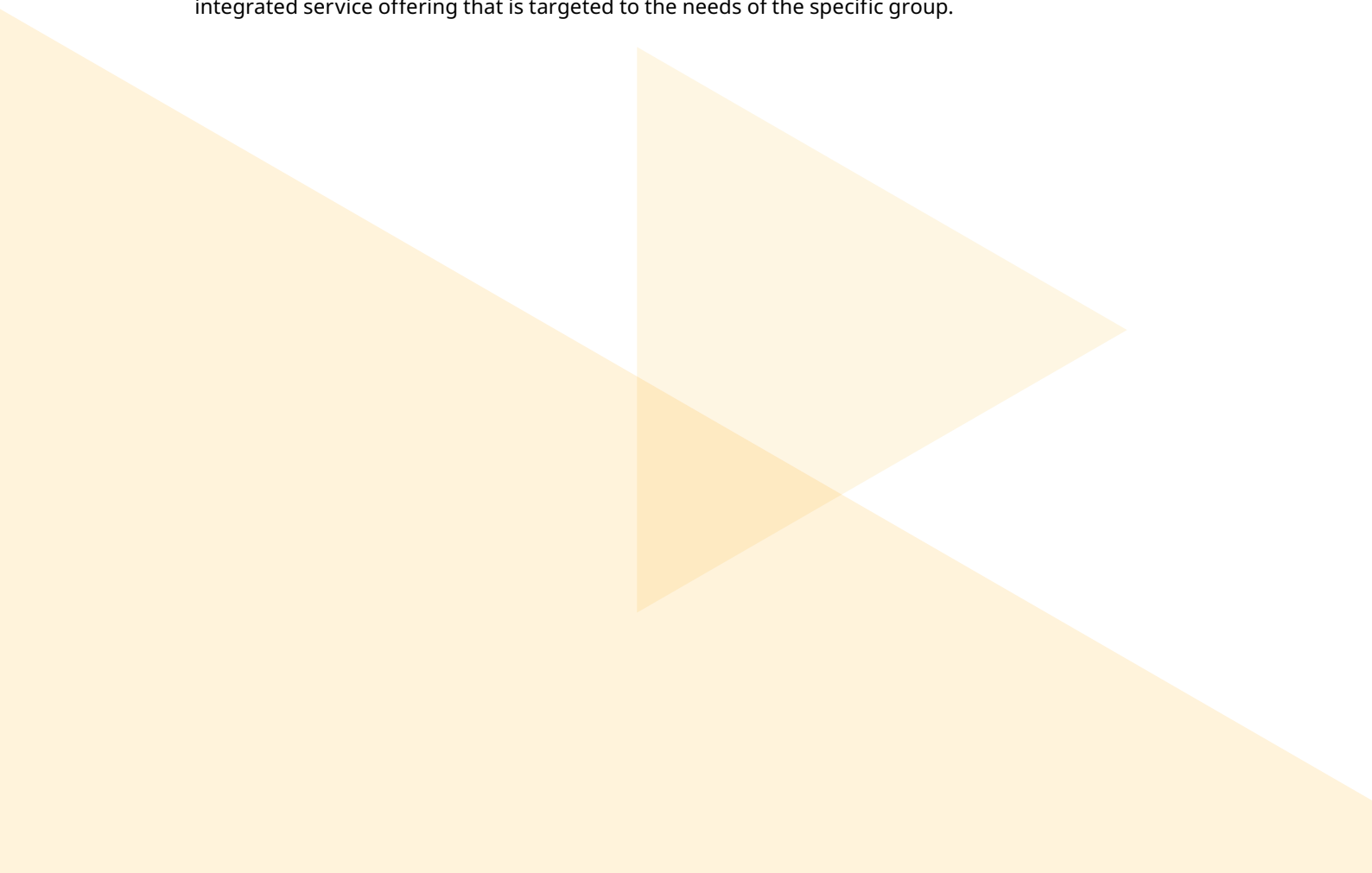
16 Albort-Morant, G. and P. Oghazi (2016), “How useful are incubators for new entrepreneurs?”, *Journal of Business Research*, Vol. 69, pp. 2125-2129

type of business support required. The various financial services and BDS available within one incubator or accelerator therefore constitutes an effective model to support early-stage entrepreneurship.

Furthermore, especially in industries and sectors that are dominated by male business-owners and entrepreneurs, **women** may face systemic and cultural constraints to entrepreneurship. Traditional support services may subsequently – often implicitly – be geared toward or favour male entrepreneurs, making it difficult for women entrepreneurs to gain a footing in the industry. Many incubators and accelerators specifically champion the inclusion of women entrepreneurs in male-dominated industries, for example by offering mentoring programs from women for women, championing female founders, and explicitly inviting women entrepreneurs to utilize the incubator’s service offering (e.g. networking events, training programs). The inclusive effects of incubators and accelerators on women participation in male-dominated industries has been especially pronounced in the technology sector. Initiatives include integrating technology and digital skills trainings for women (e.g. SheCodes, AkiraChix in Kenya), Open Days for Women to lower normative barriers to access, and celebrating female entrepreneurs and role models through invited talks and networking events.

Third, many incubators and accelerators lower entry barriers to entrepreneurship for **youth**. Especially incubators and accelerators that are based at universities or TVET Centres provide a low-cost and low-risk chance for young graduates and university students to test out their entrepreneurial ideas and receive tailored support without taking high risks. Such early forays into entrepreneurship can directly lead to the creation of a successful business but may also have effects more indirectly in promoting entrepreneurial skills and mind-sets among youth entering the labour market. Furthermore, incubators and accelerators that are closely linked to university centres are able to create a strong link between university research and the commercialization of subsequent research innovation.

Finally, incubators and accelerators can also play an active role in encouraging entrepreneurship among **migrants and refugees**. Language barriers, limited access to information, and lack of confidence may impede such groups from accessing more traditional financial services and BDS. Incubators that specifically target marginalized groups promote entrepreneurship and business creation through an integrated service offering that is targeted to the needs of the specific group.



► **Critical Reflection 3:****Can incubators and accelerators create inclusiveness at scale?**

Generally, incubators or accelerators promote ecosystems inclusiveness when they respond to the unmet needs of local entrepreneurs. This requires both, an in-depth understanding of the unmet needs of local entrepreneurs as well as active steps to ensure that the target group is able to access the services offered by the incubator or accelerator. Especially for marginalized target groups, accessibility deserves particular attention for several reasons. First, marginalized entrepreneurs may simply not know about the incubator or accelerator. Dedicated information campaigns that reach and encourage marginalized entrepreneurs are therefore important, particularly when the incubator or accelerator is new. Second, marginalized entrepreneurs may not yet have the required minimum capacity to be able to access the incubator or accelerator, particularly when the latter targets start-ups in their “early” (type 2) or “growth” (type 3) stages. Therefore, it may be crucial to also devise a pre-incubation program that equips prospective incubatees with the skills and capacities to improve their business ideas and business plans. Such pre-incubation capacity building may consist of basic business skills trainings as well as basic financial literacy training.

Yet, even where incubators and accelerators succeed in catering to marginalized groups, they still only serve a limited number of entrepreneurs directly, raising questions regarding the scale of their impact. While it

is certainly important not to overestimate the role that incubators and accelerators can play, there are also no “quick and easy” fixes to inclusiveness. Rather than supporting singular organizations to “make inclusiveness happen”, policy-makers and practitioners should instead consider that sustained inclusiveness requires change in the wider entrepreneurship ecosystem. Therefore, different ecosystem components, e.g. inclusive cultural norms and values, a conducive regulatory environment, inclusive financial services and BDS, as well as inclusive incubators and accelerators, need to be to work together to create a truly inclusive support system for entrepreneurs.

Finally, as with all developments that require system-level change, in addition to effects on direct beneficiaries, impact on indirect beneficiaries (i.e. “crowding in” effects) should be a key consideration. Incubators and accelerators have shown that they may indeed have positive ripple effects in the overall entrepreneurship ecosystem with their work. This includes for example the “halo” effect that successful women entrepreneurs graduating from incubators and accelerators may have on encouraging other women to start businesses, or incubators and accelerators’ role in legitimizing entrepreneurship among marginalized target groups (see, for example, iHub Kenya’s role in transforming Nairobi’s technology entrepreneurship ecosystem<sup>1</sup>)

1 de la Chaux, M. & Haugh, H. 2016. Institutional field building in adverse environments : A case study of Nairobi, Kenya. *Academy of Management Proceedings*. Available at: <https://journals.aom.org/doi/abs/10.5465/ambpp.2016.12930abstract>

▶ 3



# Conclusions and recommendations

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Incubators and accelerators *can* constitute effective tools for inclusive and sustainable entrepreneurship promotion. However, one size does not fit all and practitioners and project managers should therefore give careful consideration to (i) whether incubators and accelerators constitute the right type of tool for entrepreneurship promotion for their context and, if they do, (ii) how projects or programs can promote or support incubators or accelerators in a manner that promotes sustainability and local ownership.

The conclusions and recommendations in this section do not seek to give definitive answers but rather signpost key questions that practitioners and project managers should consider. The section is structured in two parts: First, considerations to determine whether incubators and accelerators are the right entrepreneurship promotion tool for a given context and, if the answer is positive, in a second step, recommendations for how practitioners can strengthen and promote incubators and accelerators sustainably.

## a. Getting started: Are incubators and accelerators the right entrepreneurship promotion tool for my context?

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### ► Understanding the extant entrepreneurship ecosystem and how incubators and accelerators would add value

Research shows that the net additional impact of incubators and accelerators on business survival and growth is most pronounced in less mature entrepreneurship ecosystems. Especially ecosystems that are still maturing have been shown to benefit from the integrated service offering and promotion of an entrepreneurial culture and momentum that incubators and accelerators tend to bring. It is therefore instrumental to first evaluate the maturity of the extant entrepreneurship ecosystem and to identify how exactly incubators and accelerators could address ecosystem weaknesses and gaps. If, for example, a substantial gap in access to finance for entrepreneurs is identified but other support services (BDS, access to markets, regulations) are found to be well-developed and accessible, then interventions to improve access to financial services may be more advisable than strengthening incubators and accelerators. If, however, the overall ecosystem is weakly developed and gaps exist across several dimensions (e.g. BDS, access to finance, access to markets), then strengthening incubators and accelerators could add value to the ecosystem for entrepreneurs by improving and integrating the support available to entrepreneurs.

## ► Defining the intended impact of an entrepreneurship promotion initiative or program

Understanding the potential role of incubators and accelerators in a given context requires clarity on the impact that practitioners, policy-makers or project managers are seeking to achieve. Is it to reach as many entrepreneurs as possible in short time and for little money? Or is it making entrepreneurship an accessible career path for marginalized populations? Or is it identifying and supporting businesses with high potential for growth so as to maximize job creation? Gaining clarity on the overall aim and intended impact is crucial for selecting the right entrepreneurship promotion tools and approaches. Below is a reflection on two examples of how “impact” in terms of entrepreneurship promotion may be defined and how this shapes considerations of whether incubators and accelerators constitute the ‘right’ tool.

**1. Scale** Entrepreneurship promotion projects and public sector investments into entrepreneurship promotion usually try to achieve improvements at scale for as many entrepreneurs as possible. This requires clarity on what “scale” means for a given project, initiative or context. If the aim is to extend support services to as many entrepreneurs as possible with little money and in short time, then one-off training programs or micro-loan and grant schemes might be more promising than investing in incubators and accelerators. However, if the aim is to promote growth-oriented entrepreneurship or foster innovation in an economy, incubators and accelerators may be a smart investment. In other words, scale can look very different depending on what is to be scaled (e.g. outreach of services at scale or innovativeness at scale?) which in turn helps determine what entrepreneurship promotion tools are most appropriate.

**2. Inclusiveness** Many entrepreneurship promotion programs and government initiatives aim at improving the accessibility of marginalized populations to entrepreneurship as a viable career path. As outlined in more detail in section 2c “Promoting more inclusive entrepreneurship ecosystems” and “Critical Reflection 3: Can incubators and accelerators create inclusiveness at scale?”, if framed right, incubators and accelerators can certainly constitute an entry point for women, youth, migrants and other marginalized groups to entrepreneurship. However, it is also important not to overestimate the singular effect that such organizations can have on inclusiveness. Achieving sustained inclusion of marginalized groups requires a holistic approach that addresses not only access to financial services and BDS but also regulations as well as norms and perceptions. Since ecosystems vary by context and target groups, there is no one size fits all in terms of how an inclusive entrepreneurship ecosystem can be promoted, as the ILO’s inclusive entrepreneurship ecosystems framework also outlines. As detailed in this document, incubators and accelerators can play an important role in promoting inclusiveness.

## ► Considering Value for Money

Public, private and donor funds for entrepreneurship promotion are limited, requiring careful consideration of how limited funds are spent. Value for Money reflections link closely to questions regarding intended impact. The evidence base regarding the value for money of incubators and accelerators is still in its infancy and conclusions therefore can only be drawn with care. Generally, incubators and accelerators (especially type 2 and 3 organizations) serve a relatively small number of entrepreneurs directly and have relatively high fixed costs, compared to training or access to finance programs. They have been shown, however, to have quite a substantial positive effect on the survival and growth of those direct beneficiaries’ businesses. Furthermore, the indirect effects of incubators and accelerators on entrepreneurial culture and the overall entrepreneurship ecosystem have been captured in anecdotal evidence, which points to interesting effects between incubators and accelerators and improvements in terms of entrepreneurial culture and public perceptions of entrepreneurship. Further rigorous research is required before definitive statements regarding the long-term and indirect value for money of incubators and accelerators. Practitioners and policy-makers should therefore take into account the initial indicative evidence presented throughout this document while acknowledging the significant knowledge gaps that persist regarding the value for money of incubators and accelerators, as well as of many other entrepreneurship development tools.



## b. How to: Promoting incubators and accelerators in a given context

Where project managers and policy-makers decide to promote incubators and accelerators, it is important to do so in a manner that fosters the long-term sustainability and local ownership of the organization. This section provides concrete recommendations for how development practitioners and project managers can work to support and promote incubators and accelerators sustainably.

### ► Identifying the right partners

Strengthening and promoting incubators and accelerators should result in sustainable, demand-oriented organizations. For development practitioners and project managers, this can often mean rather than building a new incubator or accelerator from scratch and parachuting it into a given context, identifying extant incubators or accelerators – or similar initiatives that can be upgraded to become an incubator or accelerator – as partners. Borrowing frameworks such as McKinsey’s will-skill matrix, which has also been adapted to development contexts by proponents of the Making Markets Work for the Poor (M4P), can help identify suitable partners. The will-skill matrix helps evaluate the capacities and incentives of potential partners or of extant incubators and accelerators in developing a sustainable, high-functioning organization.

Moreover, most incubators and accelerators are themselves new organizations that often still stand on unsteady feet regarding their financial sustainability and technical offering. Subsequently, not all incubators and accelerators will survive their own start-up phase and development agencies and governments need to carefully weigh the risks of supporting early-stage incubators and accelerators.

► Image 5: The will-skill framework



Source: the Springfield Centre (2015): M4P Operational Guide

Development practitioners and project managers should also consider that definitions have become blurry. Self-proclaimed incubators and accelerators often describe any type of organization that offers integrated financial services or BDS to entrepreneurs. Furthermore, projects are often designed based on idealistic ideas of what incubators and accelerators should be, rather than what realistically can be achieved in a given country or context. Care should thus be taken when identifying potential partner organizations not to compare apples with oranges.

### ► Technical capacity building

Incubators and accelerators provide integrated financial and business development services, meaning that they require the internal capacity to draw on a range of financial services and BDS tools. Usually, these include business management training, coaching, mentoring, network promotion, and organizing events such as Business Plan Competitions and Pitch Days that connect entrepreneurs to investors, potential customers, and other relevant actors.

The ILO disposes of a range of entrepreneurship promotion tools which are increasingly being employed by incubators and accelerators as part of their service offering to entrepreneurs. [The Start and Improve Your Business \(SIYB\)](#) program is a modular entrepreneurship and business management training which builds the capacity and relevant skills of entrepreneurs throughout their start-up journey, from generating a first business idea (Generate Your Business Idea) to expanding to new markets as a growth-oriented mature start-up (Expand Your Business). The program also comprises of sectorial training packages, e.g. for construction or hospitality sectors, as well as the [Green Business Booklet](#) adaptation. The [Gender and Entrepreneurship Together \(GET Ahead\)](#) training programme aims to address some of the barriers women face to starting and running a business and bridge the gender gap by building women and men's business management skills and key soft skills. It differs from conventional business training materials as it highlights entrepreneurial skills from a gender perspective, incorporates coaching and mentoring, and is targeted to the needs of women with low literacy levels. Furthermore, the ILO's [Guide on organizing business plan competitions](#) provides a hands-on document to support the implementation of such events. Equipping incubators and accelerators with these well-tested tools can considerably strengthen the technical support the organizations are able to provide as well as contribute to the financial sustainability of the incubator or accelerator.

### ► Strengthening financial viability

Financial viability refers to the development and implementation of a business model that identifies revenue streams to sustain operations. As elaborated in the prior section, incubators and accelerators primarily rely on publicly financed business models, privately financed business models or blended public-private models. A first step in setting up any incubator or accelerator is to determine what the needs among local entrepreneurs are that are not being addressed by extant financial services and BDS providers or other ecosystems actors. In a second, and equally important step, the incubator then needs to determine how it can generate the revenues to provide these missing services to entrepreneurs. This involves developing a sustainable business model with clear analyses of different target groups' willingness to pay for services and, where willingness to pay is low, a clearly articulated plan of how the incubator and its operations will be financed through other revenues. The third step then pertains to the implementation of the business model, and the identification of relevant partners to ensure the financial sustainability of the incubator.

Training programs that build the capacity of incubator and accelerator staff on how to run a sustainable incubator constitute an important first step toward making organizational sustainability of the incubator or accelerator a reality. Furthermore, a growing body of guidance is available on the topic. *Infodev's Business Incubation Toolkit*, for example, contains a step-by-step guide for setting up a sustainable business incubator. Training course alone, however, tend to be insufficient and should rather be understood to constitute a starting point. It is in combination with coaching and mentoring programs

that incubators and accelerators are more likely to be able to develop, test, and implement sustainable business models. Practitioners should therefore consider that supporting incubators and accelerators to become sustainable is not a one-off exercise but rather requires several months of (non-financial) support to help the organization design, test, adapt and ultimately implement its sustainability strategy.

### ► **Embedding incubators and accelerators in local entrepreneurship ecosystems**

Entrepreneurship ecosystems exist wherever entrepreneurs are building businesses. The key question is how effectively the extant entrepreneurship ecosystem supports people to start and grow their businesses. In many contexts, not all support functions of the ecosystem are well-developed or serve entrepreneurs. Moreover, individual ecosystem components are often disjointed or work in parallel, which makes it difficult for entrepreneurs to effectively access services. Finally, gaps between the components where the latter are not well-integrated further reduce the effectiveness of an entrepreneurship ecosystem.

An important role for development practitioners is therefore to help improve the effectiveness of the overall ecosystem by reducing gaps and duplications, and by improving the linkages and overall integration of the different ecosystems components. A key challenge is often that relevant actors struggle to align and complement each other's services. Incubators and accelerators can play an important role in convening key entrepreneurship ecosystem actors, promoting and mediating collaborations across ecosystem domains, and championing the development of an integrated ecosystem.

The ILO, with its entry points to Government and social partners, can support incubators and accelerators in exercising this convening function for the entrepreneurship ecosystem. For example, the ILO recently developed and piloted a two-day "entrepreneurship ecosystems training", which utilizes the ILO's Inclusive Entrepreneurship Framework to build the capacity of ecosystem actors (e.g. BDS providers, financial service providers, Government, incubators and accelerators, universities and other research institutions, TVET and other skill centres, etc.) to strengthen their collaboration and the institutionalization of a sustainable entrepreneurship ecosystem.

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ISBN 9789220353134



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