Reaching Entrepreneurs through Alternate Models:
Lessons from Virtual Incubation Pilots

infoDev
Growing Innovation

WORLD BANK GROUP
Reaching Entrepreneurs through Alternate Models: Lessons from Virtual Incubation Pilots
Acknowledgments

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All dollar amounts are U.S. dollars unless otherwise indicated.
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1 Executive Summary

Entrepreneurship is an essential component of a growing and dynamic economy. It is a key driver of competition, innovation, and net job creation. The founders of these enterprises can innately gravitate toward cities or hubs that provide them with the resources needed to start or grow their businesses. A 2013 report by Endeavor on what attracts entrepreneurs to cities (What Do the Best Entrepreneurs Want in a City?) noted that entrepreneurs are able to find relevant talent, resources, access to customers and suppliers, and often incentives such as lower taxes and business-friendly regulations in metropolises.

infoDev focuses on enabling the start-up and growth of innovative enterprises. infoDev designed a small pilot project to test the merits and values of virtual incubation, recognizing that many innovative entrepreneurs in emerging and developing markets may be situated in less urban areas and that often even the more developed cities lack access to basic resources, such as access to Internet, electricity, or other services and talent.

Virtual incubation aims to bring the range of services and tools provided by traditional business incubation to the entrepreneur, in contrast to the entrepreneur availing those services and tools at a fixed location. In addition, understanding that an entrepreneur may have varying needs, virtual incubation provides a more diverse range of these services and tools. This includes outreach services, drop-in services and facilities, online tools, consultancy, mentoring, and networking. The pilot project focused on Vietnam and aimed to assess the cost-effectiveness, sustainability, and impact of services and tools provided to entrepreneurs through this intervention.

The pilot comprised a number of activities, including the development of a new generation of entrepreneurs in the country, the establishment of angel networks, the dissemination of best practices, and the expansion of entrepreneurial networks and communities across major hubs in Vietnam.

The results of the pilot were evident from the onset. More than 6,000 beneficiaries were reached within a relatively short period of one year. Entrepreneurs quickly recognized the different sets of tools and services provided through virtual incubation. They replicated and adopted these to suit their own businesses. Two successful graduates of the acceleration program offered through this pilot attracted investments in the range of $1 million–$10 million. The implementation also brought forth a rich collection of lessons and best practices.

The pilot program found that this type of virtual incubation is highly relevant for countries with poor or low levels of infrastructure, rigid systems of governance, and markets where there is a significant disconnect between public and private sectors in the areas of innovation and entrepreneurship. Countries with burgeoning youth populations, where an inherently entrepreneurial community is evident, can also benefit from a virtual incubation model. Dynamic leadership is essential to the running and continuation of these activities.

This report discusses the design and lessons of the activities in further detail and provides recommendations for future programs targeting entrepreneurs, aiming to reach and grow entrepreneurs through alternative models.
2 Evolution of Business Incubation

2.1 What Is Virtual Incubation?

While business incubators have grown in scope to play an ever increasing role in stimulating the entrepreneurship ecosystem, they generally remain geographically limited and commonly, by offering opportunities primarily in major urban areas, end up reinforcing existing imbalances between urban and rural areas. However, there are now a number of programs across the world that attempt to extend the geographical range that an incubator can serve beyond its in-house clients.

To learn more about this type of incubation, in 2012 infoDev commissioned analytical work on lessons from virtual incubation models and funded pilot virtual incubation projects in Vietnam and East Africa. The project in Vietnam focused on extending the reach of business incubation beyond major Vietnamese cities, to assess the impact and cost-effectiveness of virtual incubation and to derive lessons for potential future scale-up. The project in East Africa aimed to extend the reach of incubation across a number of cities in Kenya, Tanzania, and Uganda.

infoDev defines virtual incubation as the full range of business incubation tools and services that are not (necessarily) provided to clients residing inside the facilities of a business incubator—that is, virtual in the sense of location-independent. This includes a range of possibilities—for instance, outreach services, drop-in services and facilities, online tools, consultancy, mentoring, and networking. infoDev’s 2011 report Lessons on Virtual Incubation Services introduces the topic with the following foreword: “An often cited advantage of conventional business incubation (with incubatees operating within the confines of a physical building) is that physical interaction is a powerful tool for building knowledge and networks among starting entrepreneurs.”

Physical incubation has some disadvantages. It is relatively capital intensive and outreach is limited by the available office space and the start-ups operating within the geographical area. What’s more, the physical space offered by the incubator may not equally suit the needs of all start-up enterprises. Virtual business incubators, on the other hand, provide services beyond the confines of a physical building. This allows a company to use the services of an incubator, without actually being located at the incubator site—for instance, through extension workers, online tools, and off-site advisory services. Incubators are also able to serve a much larger number of companies, over an extended geographical area.

However, virtual business incubation is a tool in search of a business model. For physical incubators, a major source of income is obtained through rent for business premises, a mode not available for virtual incubators.2

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1 http://www.infodev.org/articles/lessons-virtual-business-incubation-services
2 http://www.infodev.org/articles/lessons-virtual-business-incubation-services
The 2011 report found that a number of business models are emerging, including concepts such as accelerators and co-work spaces that can be categorized as follows:

1. **Hand-holders** offer an incubation service concept that emphasizes training and mentoring, contrasted with access to finance or networking, even though these are typically also components of their service package. Hand-holders address the challenges entrepreneurs face in developing their entrepreneurial capacities to kick-start their enterprise. Typically, virtual business incubators that fit this description are conventional business incubators that have expanded their service s to nonresident/remote clients. Some examples of hand-holders are 3ie in Chile, ParqueTec in Costa Rica, and Softstart BTI in South Africa.

2. **Network boosters** are incubators that aim to bring entrepreneurs, investors, volunteers, and service providers together and to help them provide added value to each other’s businesses; they do not focus on delivering services themselves. In this case, the incubator is a facilitator. There are two types of network boosters: the “business-plan-competition-plus network boosters” and the “2.0 network boosters.” The first group comprises, in effect, advanced business plan competitions (BPCs), where the incubators focus on launching BPCs, but continue to service and support a number of BPC participants after the competition. Noted examples include Endeavor and the BiD network. Incubators in the second group, the 2.0 network boosters, do not organize competitions but rather focus on bringing people together, typically by hosting regular events. Examples noted in the report include MobileMonday™ and the HUB, the latter of which is a co-work space.

3. **Seed capital providers** focus on providing seed investment capital, combined with (short- or long-term) mentoring support. Analysis finds two types of seed capital providers, namely those with a commercial mission (often called venture accelerators or seed accelerators) and those with a social mission. Social seed capital providers typically combine the provision of capital (grants, loans, and equity) with a long-term mentoring support program. Accelerators typically provide a short-term program (three months) of training, mentoring, and networking support designed to prepare companies for external finance. Examples of seed capital providers include ParqueTec in Costa Rica, Villgro in India, Y-Combinator in the United States, and Founder Institute in the United States and other countries.

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Business incubation supports entrepreneurs to start and grow new businesses, providing business accommodation and other infrastructure facilities along with business networks, mentoring, and advice and access to business professionals, markets, and finance. Generally it focuses on the small percentage of new firms that have growth potential and aspiration. Following the first business incubators in the 1950s, in the United States, business incubation was adopted in many countries in the 1980s and since then has spread around the world with the advent of different models.

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3 MobileMonday™ ([http://www.mobilemonday.net/about](http://www.mobilemonday.net/about)) is an open community platform of mobile industry visionaries, developers, and influential individuals fostering brand-neutral cooperation and cross-border peer-to-peer business opportunities through live networking events to demo products, share ideas, and discuss trends from both local and global markets.
Entrepreneur Led:
Assisting the entrepreneur

Technology Led:
Mixed-use and sector-specific business incubators

Investment Led:
Leveraging investment in ventures, for commercialization of research and development

1st Generation:
Facilities, reactive business support

2nd Generation:
1 + proactive business support

3rd Generation:
2 + seed finance

Virtual Incubation: 4th Generation

Light-Touch Business Support: Co-Work spaces, hubs, network boosters

Hand-Holders – intensive business support: Most incubators have virtual clients

Early Stage Seed Accelerators
2.2 Virtual Incubation for Developing and Emerging Economies

Entrepreneurship plays a significant role in the advancement of an economy, ensuring its competitive edge and promoting innovation. Business incubation is a tool to support the role of entrepreneurship and the growth of enterprises and its impact on economic and social development. Yet, many forms of business incubation can be focused on the urban populations in major metropolises, sometimes leaving a majority of the rural population unassisted. Entrepreneurs tend to also be a diverse population with different needs. In these cases, virtual incubation can fill the gap by providing differing tools and services. It may also be a cost-efficient way to increase reach and target a larger population in countries that are geographically expansive or in regions that may be more similar than different.

2.2.1 Vietnam
Praised for equitable development, Vietnam is a success story for economic development, transforming the country from a per capita income of $100 in 1986 to a lower-middle-income economy with a per capita of more than $1,100 in 2011.4 With a large, young, and predominantly rural population of almost 90 million, half of whom are below 27 years of age, and with strong gross domestic product (GDP) growth, Vietnam is a dynamic economy, with a rising tide of entrepreneurship. The number of private sector firms grew from 35,000 in 2000 to more than 600,000 firms in 2011.

In the two main cities of Hanoi and Ho Chi Minh City, the entrepreneurship ecosystem, consisting of awareness raising, training, incubation, access to financing, and support for internationalization, is more developed than in second-tier cities and the provinces. Although the ecosystem is developed in the two major cities, it is still less than ideal. A vast number of public and private organizations offer numerous courses on entrepreneurship, but it is often “academic” rather than involving practical learnings from actual entrepreneurs.

Riding on the successes of a booming stock market that attracted global investor interest, the first wave of successful technology start-ups formed from 2004 through 2008. Since then, economic conditions have weakened somewhat and the technopreneurship community now awaits successful initial public offerings and acquisitions to encourage new technology start-ups. However, 2012 presented the slowest growth in 13 years: the real estate market slumped, unemployment at 7.6 percent was second only to the Philippines (8.5 percent) in Asia, the stock market was volatile, high inflation persisted, and investment funds retreated.

Existing incubators in the country have not provided compelling success stories and seed funding is scarce. Even though there are two active venture capital funds in the country, they struggle to find good deals and take a cautious approach to investment.

2.2.2 Business Incubation in Vietnam
Vietnam has approximately 11 technology business incubators in existence, most of which rely upon public sector funding and are reliant on public sector modalities. The numbers are set to increase, and

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the Ministry of Science and Technology (MOST), under the National Program for High Technology Promotion, plans for 30 new incubators in the provinces, to expand the competitiveness of agricultural industries, to improve the level of technology in small and medium enterprises, and to take technology to the provinces. The problem, the ministry noted in 2012, was “which model to choose.”

Performance of existing incubators is mixed and capacity is limited, although proponents are trying to make it work within organizational and funding constraints. As a seasoned observer in Vietnam noted, “incubators are careful and worried and screen endlessly, to only accept clients who are ‘very safe’ or with a good scientific base irrespective of a business case—risk taking and volume need to increase.” This reflects the stage of evolution of incubation in Vietnam, where most incubators are managed by public sector universities and technology parks, with only limited private sector expertise and entrepreneurship, no autonomy, and limited budgets. The government is aware of the challenges, and the industry in Vietnam will continue to evolve.
3 Virtual Incubation Pilot

With funding from the government of Finland, under the Creating Sustainable Businesses in the Knowledge Economy Program, infoDev issued a request for expressions of interest to pilot virtual incubation services in Vietnam. The objectives of the pilot were to catalyze virtual incubation in relatively rural areas and to test virtual incubation as a tool for reaching growth-oriented entrepreneurs outside major metropolitan cities.

3.1 Objectives

In Vietnam, the pilot consisted of four major objectives to be reached in a fairly short timeframe: 5

1. Taking the benefits of business incubation beyond the major cities to more rural populations
2. Exploring the use of different tools and business models that can lead to future sustainability for virtual incubation initiatives
3. Assessing the impact and cost-effectiveness of virtual incubation and deriving the necessary lessons for potential future scaling up in other countries or regions
4. Building upon and leveraging other infoDev-funded activities, including mLabs, mHubs, and other business incubators

The pilot took these initiatives and adapted them to provide locally driven, market-specific activities:

• Development of networking chapters
• Dissemination of start-up best practices
• Development of angel networks
• Development of the next generation of entrepreneurs

In Vietnam, the local implementing partner designed the pilot to address weaknesses in the entrepreneurship ecosystem, particularly for entrepreneurial learning and mentorship, early stage financing, and networking and support for start-up companies. It also leveraged the implementing partner’s experience in e-learning, business incubation, and mobile social networking.

TOPICA Edtech Group is a venture capital–backed company that leads the provision of high-quality online university degrees in Vietnam. With more than 350 staff, 1000 instructors, and 17,000 degree students, the company is growing its revenues by more than 100 percent per year and is expanding to South East Asia and recently established a presence in the Philippines. TOPICA provides a full turnkey solution to help universities establish an online presence with zero risk and zero investments. TOPICA’s involvement in business incubation in Vietnam dates back to 2004. Of particular relevance to virtual incubation, TOPICA also operates the Founder Institute chapter in Vietnam and is Vietnam’s only accelerator whose graduates raised multi-million dollar in funding. The Founder Institute claims to be the “World’s Largest Start-Up Accelerator,” operating in 26 countries, with a mission to “Globalize Silicon Valley” and help founders build enduring technology companies.

5 Due to due diligence and other World Bank procedures, the grant period was approximately one year.
Box 2: Local Partner

There are many private sector players in the ecosystem in the main cities of Hanoi and Ho Chi Minh, whereas only the government is active in other cities and rural areas. Based on this gap analysis, a series of activities was proposed under the virtual incubation project. To address the gap seen in awareness and networking, the establishment of networking chapters was proposed. Although a number of training options exist in the main cities, it was determined that the best mode to reach more rural populations would be through the creation of best practices and mentoring via social media outlets and other web-based options. The project aimed to also build a new generation of entrepreneurs that would encourage the millennial generation to take on entrepreneurship. And finally, the project aimed to design and establish angel networks in the country, a severe gap observant in the local ecosystem.

3.1.1 What category was the Vietnam pilot?

In terms of the categorization of virtual incubation in Vietnam, the pilot is at its core a network booster, with some elements of “hand-holding.” Development of entrepreneur networking groups, angel investor groups, and start-up events all fall within the network booster terminology, whereas the Founder Institute training falls under the hand-holder category. It is not an either/or but a progression, whereby networks both support and identify start-ups with more intensive follow-on hand-holding support.

3.1.2 Outputs and outcomes

More than 6,000 people were beneficiaries of the various activities under the virtual incubation pilot.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Name of the event or activity</th>
<th>Number of events</th>
<th>Numbers (other)</th>
<th>Location</th>
<th>Participants</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop networking chapter</td>
<td>MobileMonday</td>
<td>4</td>
<td>HCM, Danang, Can Tho</td>
<td>438</td>
<td>4 events</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The VoiceUX</td>
<td>1</td>
<td>Hanoi</td>
<td>140</td>
<td>40 founders and CEOs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PHP Day</td>
<td>1</td>
<td>Hanoi</td>
<td>450</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>MobileMonday</td>
<td>1</td>
<td>Hanoi</td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Start-up weekend 2013</td>
<td>1</td>
<td>Hanoi</td>
<td>250</td>
<td>11 teams, of which 3 received funding offers</td>
<td></td>
</tr>
<tr>
<td>Disseminate start-up best practices</td>
<td>Demo Day</td>
<td>1</td>
<td>HCM</td>
<td>103</td>
<td>15 start-ups</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Start-up conferences 2012</td>
<td>2</td>
<td>Hanoi, HCM</td>
<td>800</td>
<td>500 founders and CEOs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Case study development</td>
<td>10</td>
<td>n/a</td>
<td>n/a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>Topics</td>
<td>City</td>
<td>Total</td>
<td>Details</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
<td>--------</td>
<td>------------</td>
<td>----------</td>
<td>------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online start-up course for students</td>
<td>6</td>
<td>Hanoi</td>
<td>572</td>
<td>843 video views; 1,297 slide downloads</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online start-up course for students</td>
<td>5</td>
<td>Hanoi</td>
<td>500</td>
<td>5,365 total views; 5 offline events</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tech start-up competition 2012</td>
<td>2</td>
<td>Hanoi, HCM</td>
<td></td>
<td>23 nominated start-ups; 5 winners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ideation boot camp</td>
<td>1</td>
<td>Hanoi</td>
<td>120</td>
<td>Start-ups and managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pitch boot camp</td>
<td>1</td>
<td>Hanoi</td>
<td>140</td>
<td>Start-ups and managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-founder dating</td>
<td>1</td>
<td>Hanoi</td>
<td>100</td>
<td>Start-ups and managers. Speed dating: 11 founders and 40 potential co-founders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Youth start-up festival</td>
<td>1</td>
<td>Hanoi</td>
<td>n/a</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start-up pitch with Jeffrey Paine Golden Gate Ventures</td>
<td>1</td>
<td>Hanoi</td>
<td></td>
<td>20 Registered companies; 3 investors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile Day</td>
<td>2</td>
<td>Hanoi, HCM</td>
<td>450</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Connecting business 2.0</td>
<td>1</td>
<td>Singapore</td>
<td>n/a</td>
<td>20 Venture Capitalists 5 media partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perfecting investor pitches</td>
<td>n/a</td>
<td>n/a</td>
<td>10</td>
<td>Pitching via Skype to investors in Silicon Valley for training and mentoring</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branding support for existing start-ups</td>
<td>1</td>
<td>n/a</td>
<td>16</td>
<td>Articles to help brand start-ups</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Angel investors visiting Silicon Valley</td>
<td>1</td>
<td>Silicon Valley</td>
<td>7</td>
<td>With local tech entrepreneurs, TOPICA helped send local angels to SV to learn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tech websites engaged</td>
<td>5</td>
<td>n/a</td>
<td>n/a</td>
<td>Such as Tech Asia for awareness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kawai Business start-up competition 2013</td>
<td>1</td>
<td>Hanoi</td>
<td>800</td>
<td>150 competitors, 10 partners, 5 teams in final round</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 1: Project Outputs

For light-touch incubation along the lines of the pilot, with multiple partners and numerous events, attributing causality for business outcomes as a result of the incubation activities is almost impossible. Noting this qualification, the pilot reports several business outcomes, as shown in table 2.

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of entrepreneurs reached</td>
<td>690</td>
</tr>
<tr>
<td>Number of women developers reached</td>
<td>31</td>
</tr>
<tr>
<td>Number of women-led small businesses/entrepreneurs benefiting from in-depth services</td>
<td>5</td>
</tr>
<tr>
<td>Percentage of beneficiaries rating their level of satisfaction with incubation services as highly satisfactory</td>
<td>85%</td>
</tr>
<tr>
<td>Number entrepreneurs that secured investments</td>
<td>5</td>
</tr>
<tr>
<td>Number of jobs created</td>
<td>156</td>
</tr>
<tr>
<td>Number of jobs supported</td>
<td>132</td>
</tr>
<tr>
<td>Number of jobs created for women</td>
<td>41</td>
</tr>
</tbody>
</table>

Table 2: Project Outcomes

The case studies below on two companies, both of which have grown fast and have multimillion-dollar valuations, show how virtual incubation, combining events and the Founder Institute, provided critical assistance for their development and growth.
**Yton: Vietnam’s Next Generation Entrepreneur**

Nguyen Duc, Founder, Vietnam | Location: Hanoi, Vietnam | Website: www.yton.vn

**Challenge** – Vietnam’s growing population of 90 million brings with it significant health challenges and an increasing burden on systems and policies for health care management. Software and IT systems are ever essential in managing the day-to-day workflow of hospitals and health centers. Yet, many local entrepreneurs remain cautious to opportunities of doing business with these entities in a country where the majority of hospitals fall under the purview of the government. Inspired by the United States and models such as ZocDoc, Nguyen Duc saw an opportunity in the growing smartphone and IT savvy Vietnamese market and revolutionized the delivery, distribution, and access of health information in tracking patient health information.

“Yton is a smartphone- and online-based health care social network for clinics, individual doctors, and patients.”

**Idea** – Mr. Duc started his company in 2010 with seven people, bringing with him work experience and a background in the technology sector as well as the health care sector. At the time, approximately five companies provided software for hospitals, clinics, and community health centers in the country. Not surprisingly, the quality of the products provided were substandard, and he saw an opportunity to develop his own products. He began with two products, growing fast and serving 40 hospitals in the first three years alone. In turn, he was able to expand his company to 100 employees at the end of two years. Although the growth was rapid, Mr. Duc did not have the necessary management expertise and a number of problems ensued. The contracts signed with the hospitals were not substantial and receiving payments continued to be a recurring issue. Moreover, until 2013, hospitals were not permitted to pay for IT services directly. In 2012, Mr. Duc decided to enroll in the TOPICA Founder Institute course, which allowed him to develop a new scalable business model.

“Yton illustrates what can be achieved by providing guidance to an existing company that was struggling with an outdated and problematic business model.”

**Business Model** – Most revenues from health care continue to be based on a business-to-business model, selling software to government hospitals, clinics, and community health centers. Mr. Duc opted to convert to a business-to-consumer model, earning revenues from individual patients and completely bypassing the government. This model entailed reliance on patients generating appointments via SMS (short message service). Following this model, by September 2013 Yton grew to have more than 20,000 patients among 70 clinics.
## Key Outcomes

### Value for Users
- The Yton co-work space will assist three to five IT for health start-ups at any one time, providing access to space, Internet, and support from Yton staff, who will work with them to test ideas and develop viable business plans, leveraging knowledge in SMS IT for health information systems.
- Yton provides improvement in patient access to health information systems through a variety of apps targeting and providing information for maternal care, diagnosis, and location services.

### Business Facts
- Contracts secured: 40 contracts with hospitals, clinics, and community health centers for the hospital software since the company’s start in March 2010
- Investment attracted: From Japan’s Senior Marketing Services (September 2013)
- Jobs created: 110 direct employees
- Customers reached: 50,000 patients with the appointment app; 70 hospitals, community health centers, and clinics using the software

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## Entrepreneur’s Insights
- Further access to the virtual incubation manager is required to have a follow-up on daily activities.
- Organization of start-up events providing expertise in the areas of management and financing
- Access to local mentors is crucial to find local-adapted solutions and understand the local market better.

## Next Steps
- Attract investment from Japan’s Senior Marketing Services to fund the next stage of growth in the company, increasing patient numbers using the appointment app in the south of Vietnam.
- Build a better social health ecosystem, linking up with related companies who can work together with Yton.
- Increase market penetration in the south of Vietnam, Laos, and Cambodia.
- Expand to the broader Asia Pacific market, including Indonesia, Malaysia, and the Philippines, focusing on the aging and aged populations and targeting medical tourism.

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## Working with infoDev
- Participant in the TOPICA Founder Institute Programme 2012
  - The program provided guidance and expertise to Mr. Duc and his company to address general problems that resulted from growth and inadequate business management expertise.
  - The program provided guidance on business analytics and forecasting. The game-changing factor was advice received on the usage of business models and the scalability of products and services.
Appota  “Building the Next Generation Mobile Platform in Asia”
Do Tuan Anh, Founder, Vietnam | Location: Hanoi, Vietnam | Website: www.appota.com
Facebook: /appota | Twitter: @appota

Challenge — With more than 149 percent of the population subscribed to public mobile phone services, the mobile technology market in Vietnam is booming. Vietnam represents the eighth highest number of mobile phone subscribers in the world, and according to a 2012 report, the country spent close to $4.5 billion on mobile phone imports. While the use of feature phones continues to remain in the market, the country has seen a growing market for smartphones. In the same way, the marketplace for purchasing mobile apps continues to grow. Purchases in application stores are usually made via credit cards. However, in Vietnam access to credit cards is limited and other payment forms, such as SMS, scratch card, e-wallet, and Internet banking, are more frequent but often expensive. There remains a challenge to innovate on purchasing modes that can offer cheap and technological adapted solutions, as well as the development and promotion of applications that contain local content.

Idea — With a background in online journalism and marketing, Do Tuan Anh observed the existing gap in the mobile market for local content development as well as the difficulties to effectuate online payments via credit cards to download applications. He then thought to develop an online platform, similar to an app store, but with local content adapted to the people’s demand. For this, he built an online platform, rather than a simple marketplace, where developers and content providers could distribute their apps easily. Additionally, the users would have the option to pay with an SMS-based system to download the apps, an option that is not available in conventional app stores (Windows, Android, iOS).

Business Model — In December 2011, Appota was founded to become the best mobile platform in Vietnam specialized in distributing apps and games with local contents. Appota’s main product is its mobile content platform, which enables developers and content providers to distribute applications, games, e-books, and so on to users. Channels for distribution include AppStoreVn, Gsmvn, Cydia, and Facebook as well as the handset makers Huawei and Oppo. Moreover, Appota offers support to businesses by promoting their application as well as a localization system that adapts English content to Vietnamese. Appota’s competitive advantage lies in its billing system: today, the company offers a billing integration system to have all mobile payments centralized in one app. While Google’s and Apple’s competing platforms rely upon credit cards, users of Appota’s mobile platform pay for the services with a telecom provider’s SMS billing system. The provider receives 50 percent of the revenues that are generated through the platform; the app developers, 35 percent; and Appota, 15 percent. One year after founding Appota, there were already 1,500 registered developers and 2,100 apps on

“Appota aims to develop a locally relevant mobile content platform.”

“Appota illustrates the importance of a competitive and locally relevant business model with scalability outside Vietnam.”
distribution channels. In 2013, Appota was nominated as “The Best Start-Up” of the year by TOPICA Founder Institute and Vietnam’s start-up community. After participating in the TOPICA Founder Institute Program, Do Tuan Anh changed his mind-set and business approach and is thinking of creating a more enduring and scalable solution that can be taken outside the local market.

“Regional investors from more advanced countries in Asia are important for countries such as Vietnam and can be more attuned to the local culture and ecosystem.”

Entrepreneur’s Insights
- Get access to mentors and investors:
  There is a lack of mentorship and investors, but these are vital elements for a thriving entrepreneurial ecosystem.

- Attract regional investors:
  Investors from more advanced countries in Asia are important for countries such as Vietnam and can be more attuned to the local culture and ecosystem.

Next Steps
- Launch a similar platform in Indonesia with the recent investments attracted.
- Expand to other countries in the Southeast Asia region, starting with Malaysia.
- Launch an interactive social gaming platform at TechCrunch in 2014.
- Become a company worth $1 billion.

Working with infoDev
Do Tuan Anh participated in the TOPICA Founder Institute Programme 2012. The entrepreneur changed from a traditional business model to an innovative and creative business after attending the program.
- The program offered pitching and networking events that provided a network of investors that then supported Do Tuan Anh’s idea.
- The entrepreneur developed a competitive advantage strategy with a scalable business model after graduating from the program.

Key Outcomes

Value for Users
- The platform provides an opportunity for developers to generate revenues from the purchase and increase job opportunities.
- Local content is developed to better match the needs of the users (language, interface).

Appota’s platform helps businesses to increase the number of downloads and users of their apps.

Business Facts
- Revenue generated in 2013: $5 million per year
- Investment attracted: Local – Series A and foreign – Series B (Hong Kong, Singapore, and Japan)
- Jobs created: Direct 100 employees (50% engineers), 6,000 app developers
- Customers reached: 10 million users in Vietnam
4 Sustainability

Sustainability defined here refers to a number of factors. Has the initiative achieved financial sustainability? Is the activity sustainable in and of itself, thereby achieving replicability in the ecosystem? Has there been co-financing of activities or leverage of the initial activities? The challenge of achieving sustainability is well understood by local implementing partners. Grant funding provided by infoDev is often a slight amount, acting only as a catalyst or seed capital, with little to no guarantee of follow-on funding. The implementing period can be compressed into a very short duration with much emphasis and reporting on targets and outputs, thereby skewing focus on certain activities over others.

The light-touch network booster model, feeding into the Founder Institute program, as applied by TOPICA, the implementing partner in Vietnam, is self-sustainable. With a combination of sign-up fees, external sponsorships, and support from organizers, the program now continues without further grant funding. Any fees levied aim to cover basic costs associated with the functioning of the program and shortfalls are covered by the implementing partner, an approach taken to help them position their brands in the local marketplace.

A dynamic self-sustainable start-up ecosystem, with light-touch virtual incubation services, involving multiple players, is developing in Vietnam. Arguably, this is a conclusion based on an overall examination of sustainability of the ecosystem, rather than any one of the component organizations. infoDev’s investment, supporting networking, multiple events, and learning, helped catalyze the start-up ecosystem in Vietnam. Now many more organizations coordinate events and others are establishing co-work spaces, as compared to when the pilot commenced. However, this number is much smaller when it focuses on more selective and intensive support, such as those services provided by the Founder Institute seed accelerator.

HATCH is one example of the new not-for-profit initiatives promoting and supporting entrepreneurs, start-ups, and small and medium enterprises in Vietnam. The initiative commenced activities in December 2012 and aims to draw together and support the regional start-up ecosystem. Currently, the HATCH program focuses activities in both Hanoi and Ho Chi Minh City. TOPICA, the virtual incubation implementing partner, is also a partner of the program.

Box 3: Support to Entrepreneurs in Vietnam

The virtual incubation pilot used a low-cost business model finely attuned to local price sensitivity. The model pioneered by TOPICA, with networks, events, and the Founder Institute seed accelerator, is low cost and does not need a high capital investment. It does not involve dedicated premises; instead, it leverages existing locations. The activities also use self-sustainable events, mentoring, and volunteers. In a highly price-sensitive marketplace, prices need to be finely attuned to the local cost of
living, so the fees levied on participants are affordable and “almost cost recovery.” Any losses are picked up by the implementing partner and other organizers and are modest and affordable; the local implementing partners see this as a worthwhile effort for the positioning of their own core businesses in the marketplace.

For many events, the cover charge is less than $10. The Founder Institute four-month program fee is $500. With these charges, financial sustainability becomes a numbers game. For events, even though the risk is transferred to the venue owner, it is still a matter of attracting large numbers of people, so the venue owners are not disadvantaged. For the Founder Institute program to break even, 35–40 participants are required. To date, only 25–30 enrolled in each of the two offered programs, so TOPICA subsidized the remainder of the program.

**Sustainability of the model relies upon the enlightened self-interest of the organizers**, who cover any shortfalls, to develop their brands and position their businesses in the marketplace. TOPICA as an online training with a longer-term interest in promoting and supporting start-ups, is the type of organizer prepared to invest to sustain the program.

The same applies to some of the co-work spaces, which are being developed privately, with a long-term interest in either investing in the companies or developing companies of strategic interest to the promoters. For instance:

- Hub.IT is being developed by a Singaporean and has regional interests. It houses one of the founder’s start-ups and other start-ups that might be of investment interest in the future.
- Yton is establishing a health IT co-work space to develop new health IT companies that complement its services and in which it might invest in the future.

However, co-work spaces can also be self-sustainable with revenues from membership, renting desks and facilities and event charges, as proven by many successful models around the world.
5 Lessons Learned

5.1 The Model

_Eighteen months is not long enough to properly test virtual incubation, especially in the face of an economic downturn_

Due to a number of reasons, the envisioned three-year project was compressed into 12 months. Moreover, the economic downturn that beset Vietnam in 2012 constrained start-up and investment activity, which focused on Hanoi and Ho Chi Minh City. Accordingly, the plan to take virtual incubation to cities outside major metropolitan hubs had to be aborted. In the end, incubation efforts needed to work in the main population and economic centers before regional expansion.

Even though the pilot could not test virtual incubation in regional areas of Vietnam, a private sector-driven, light-touch model of early stage virtual incubation appears to be evolving in Vietnam, reliant on varied networks working together for events, seed accelerators, and co-work spaces.

_Light-touch virtual incubation activities are an important part of the early stage start-up ecosystem_

The network booster model, involving and leveraging events and networks, funneling to the Founder Institute seed accelerator program, appears to be an important part of the ecosystem, appreciated by local entrepreneurs.

The client entrepreneurs consulted recognize the main benefits of these activities are the networking and mentoring, noting the biggest challenges are market entry and designing the right business model. Entrepreneurs who participated in the Founder Institute program noted the importance of networking with mentors and investors. In addition to guidance on investments, the entrepreneurs appreciated support from mentors on other aspects of running a business, including company structuring, marketing, and human resource management.

Entrepreneurs noted that the best system may be payment for seed acceleration and co-working by way of equity in the company assisted, a model that may not be applicable or acceptable for all clients or service providers.

_Co-work spaces are an important part of the mix_

A growing number of co-work spaces are being established in the private sector in Vietnam by both local and foreign entrepreneurs. Some examples include the following:

_Hub.IT⁶_ was started by Bobby Liu, a Singaporean based in Hanoi, and other regional collaborators in October 2013. Quoted in _Tech Asia_, he noted, “I didn’t want such a space to be just about cheap office rental,  

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hence the idea of combining business incubation services.”7 One of the regional collaborators from the MAD incubator in Malaysia, also remarked, “[W]e share a similar vision of creating a Southeast Asian community that harnesses our diversity to create meaningful collaboration and market access within South East Asia. In due time, MAD Inc. will be using Hub.IT as our Vietnam base for our incubates who intend to penetrate into Vietnam.”

**Vatgia** is Vietnam’s largest e-commerce company that started its own incubator on its premises. The company plans to invest in new start-ups and existing firms with the potential to leverage the parent company’s e-commerce platforms, taking substantial equity positions.

**Yton** is establishing a 50-square-meter co-work space on the ground floor of its premises in Hanoi to assist three to five new IT health start-ups at any one time. In addition to space and access to the Internet, support will also be provided by Yton’s own staff, who will work with the start-ups to test their ideas and develop viable plans. The carefully selected start-ups will not pay fees, partly motivated by Yton’s Corporate Social Responsibility CSR ethic, and a desire to build the local health IT community, but also with a view to investing in them at the seed stage.

**Too early for investment-led seed accelerators**

To date, in Vietnam, there are no investment-led seed accelerators along the lines of Y-Combinator, although there is interest. The Founder Institute is a seed accelerator, but it has a business model revolving around participant-based fees for mentoring and training, rather than the Y-Combinator model revolving around an investment in the start-up. The investment model is largely dependent on successful technology entrepreneurs, who have made an exit and who want to mentor and invest in new start-ups. The gap in Vietnam at the moment is a shortage of successful technology entrepreneurs who have made an exit.

**Founder Institute seed accelerator model works in Vietnam**

Noting that it was too early for a Y-Combinator model, TOPICA chose to locally adapt the Founder Institute seed accelerator, due to the potential to achieve self-sustainability or only attain modest losses relatively quickly. In addition, because it is a revenue model based on participant fees, as opposed to a quick financial exit, it is not restricted to IT and social media.8

Experience to date shows that participants are prepared to pay a fee for the four-month program and that the program is appreciated by participants and stakeholders, with a few very successful companies emerging from the program (see the Appota and Yton case studies).

**Light-touch virtual incubation can be easier to implement compared to traditional deep and narrow incubation**

In a complex ecosystem such as Vietnam, with limited trust; limited institutional innovation capability; poor links among industry, academia, and public sector research; and limited incubator

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8 Seed accelerators with equity-based business models require quick exits for the business model to work and to date have largely been restricted to IT and social media. Moreover, the model has only really been proven financially by Y-Combinator and Tech Stars. As Mark Lennon noted in his November 2013 article on TechCrunch, “The Start-Up Accelerator Trend Is Finally Slowing Down”: “As the top few accelerators continue to dominate, new programs are struggling to attract the best founders and make seed investments in promising companies. In an environment where only one-third of start-ups find follow-on investors, most young accelerators and incubators seem destined to fail because of the overcrowded market for early stage funding.”
management capability, effective public sector incubation is very difficult. The pilot shows that private sector–led virtual incubation, with a “light touch” network booster and training/mentoring model, can be easy to implement and sustainable. The model provides benefit to many thousands of people. The emergence of private sector–led co-work spaces goes some way to provide follow-on support, but this does not mean that quality deep intensive incubation is not ultimately needed as a follow-on service.

**Intensive support post start-up is a challenge, but new options are emerging**

Start-ups still need further and deeper intensive support than is possible in a structured framework from an early stage light-touch model of incubation. This might be provided by investors and other entrepreneurs, who may be linked to the start-up through networking or seed accelerator activities; or by more formal private sector incubation; or by co-work spaces, which provide additional light-touch networking support; or over time by the public sector incubators, with public good objectives, in partnership with the private sector. An entrepreneur who took part in the Founder Institute program as a mentor noted that the model piloted by TOPICA is “the ideal system.” He continues, “TOPICA is very important as the first step, helping founders get together with mentors and investors. The next step is detailed support and financial help, for which TOPICA does not have the time or skilled staff and it is best I do this. Start-ups need space, daily advice and finance at the right time, which I can provide.” This entrepreneur then went on to support two graduates of the Founder Institute program.

**Attributing causality is almost impossible**

With a model involving numerous players, networks, and events, it is very hard to attribute causality for business outcomes to any one intervention. Anecdotal evidence, however, clearly shows the value of events, networking, and the Founder Institute program, which link entrepreneurs with mentors, investors, and others from whom they can learn.

**Understand the pros and cons of international versus local role models**

Both international and local mentors and advisers are needed. Within the Founder Institute program, 90 percent of the pool of mentors and potential angels were Vietnamese and only 10 percent were international. The pilot shows there are some local successful entrepreneurs who have a desire to give back and mentor companies, with sometimes a view to investing. One entrepreneur noted, “The biggest ecosystem challenge is to change people’s minds, so they become more customer focused. We need real examples from Vietnam, to get people to believe they can do it.” Nonetheless, how things are executed in more developed markets can be an important pool of resources.

**Successful start-ups have work experience**

Reinforcing a common research finding, TOPICA analyzed successful technology start-ups in Vietnam and found that the entrepreneurs are not fresh graduates but typically 28 years old, on average, with work experience and international exposure. This does not mean that there is no demand from students for training and start-up support. But the expectations need to be realistic: student-based entrepreneurship support may help them obtain employment and can establish an important foundation for successful entrepreneurship, once they have real-world experience and contacts. Notably, Yton and Apotta, the most successful of TOPICA’s enterprises to date, were both started by entrepreneurs with work experience.
Significant adaptation is needed for “off the shelf” models

TOPICA had to significantly adapt the Founder Institute methodologies and content for the local environment. This required a team of five to six people working for several months adapting materials and developing new event management, application tracking, and workflow procedures. The content adaptation was more subtle and required key senior people in TOPICA to participate in all the training/mentoring sessions to adapt the content as needed. For example, the content includes typical ideation techniques suitable for more developed markets, whereby teams identify real-world problems for which they develop solutions. A very real and easier Vietnamese alternative, applicable to emerging markets, is to see what works in developed economies such as the United States and then adapt it to the local market. It is very rare in a country like Vietnam to find a new solution adoptable on a global level. TOPICA believes its success, as one of the leading chapters of the Founder Institute, is a result of how it adapted the methodologies. This is still more cost-effective than the alternative of developing a similar system from scratch.

Pitching or marketplace judging

TOPICA found a “marketplace” format of Demo Days, where start-ups are assigned stations and conduct product demonstrations to roaming audience members and judges, was much more effective and enjoyable for all participants than the standard “pitching” format of other start-up events. The start-ups feel more comfortable interacting with the judges and audience members, and judges can spend more time with the start-ups they are most interested in.

The light-touch network booster model has limitations

Driven by the private sector, the dynamic network-based model emerging in Vietnam has a number of limitations:

**Sectoral limitations.** The model may be more suitable toward IT and social media sectors, where the barriers to entry are low and facility requirements are minimal, but it is less suited to clean tech, agribusiness, biotech, and other sectors where start-up costs are higher, specific facilities may be required, and it takes longer to establish a business and make a financial return.

**Deep incubation is still required.** The light-touch model relies upon linking clients with investors or mentors, who then support the business over time, or with other entrepreneurs for more informal peer-to-peer learning. Private sector–led incubation may take on companies, or start-ups, that fit with the parent company’s platforms and interests. Inevitably, not all good prospects will be taken up by investors, mentors, or private incubators, meaning there may likely be a gap, for which in time the solution may be public incubation.

5.2 Champions and Organizers

**Recognize and leverage legitimate self-interest**

The pilot in Vietnam shows that companies in the education and media sectors are prepared to support this style of virtual incubation as a part of their branding and positioning. It helps them sell their own product offerings. This needs to be recognized and leveraged. It is often why universities sponsor incubation. On the surface, the objectives of universities may well be to commercialize research, or to
help graduates to establish businesses, but deeper motivations, which are not always overtly stated, are to brand the university, to pull in more and better students, and sometimes to enrich the learning experience with internship programs with incubated companies.

**Dynamic, well-networked leadership is required**

For both virtual incubation and emerging angel networks, the credibility, networks, and dynamism of the leaders are critical components. A key to successful outcomes for this activity is in the personal and professional networks of the project leaders.

When it comes to developing angel networks, the early lesson is that it needs at least two highly motivated and active angels to lead activity. Having at least two investors means the workload can be shared.

**Organizers should be from the private sector**

Event organization is fast-paced and hectic and requires flexible and nimble thinking and practices, common traits that can be found in the private sector. Moreover, events can, at times, run at a loss, which can more easily be covered by private sector organizers. Fundamentally, entrepreneurs need to learn from other entrepreneurs whom they trust and respect. With low levels of trust and respect between the public and private sectors, this may pose a challenge for some public sector organizations.

**Maintain co-organizers to share workload and benefit from peer pressure**

By having two to three co-organizers, the workload can be shared and peer pressure can provide additional motivation. The relevant co-organizers have wide reach to the tech community, a very good understanding of the industry, brand credibility, and reputation. Training companies provide content in the relevant sectors and media companies are prepared to subsidize events from time to time, as part of their positioning and branding in the marketplace—an important element of sustainability. Co-organizers also assure a degree of neutrality for events.

**Mobilize student-led organizations**

Student-led organizations can provide many benefits to organization and media aspects:

- Enthusiastic students help spread information about the event to their communities, leveraging their personal networks.
- The presence of students at events creates a positive, lively, and youthful atmosphere conducive to an entrepreneurial spirit.
- Students are the next generation of entrepreneurs and involvement keeps them up to date with new technology trends.

**5.3 Disseminating Best Practices**

**Role models are effective**

Role models of emerging technology entrepreneurs are crucial to stimulate interest and support learning. The most important lessons for start-up entrepreneurs are drawn from the pre-start-up stages of successful companies, so it is important to have contacts within the founding team, to be able to illustrate from multiple perspectives which factors lead to the team’s success during these stages.
Promote cases and causes without referral to financial aspects

Because successful entrepreneurs try to hide their success, to avoid being pushed for sponsorship and other payments, it is important to profile success stories without alluding to financial aspects.

Online video followed by chat is effective for case studies and learning

While face-to-face training and mentoring has value, the advance of technology gives additional vehicles and channels to improve communication, interaction, and training. As the pioneer in online education in Vietnam, TOPICA experimented taking offline face-to-face mentoring sessions to online outlets. They found that watching videos alone was insufficient, so they brought on mentors and organized online discussions. This allowed participants from all over the country to join and send questions to the mentors. What works best is to have entrepreneurs provide online content via video format, followed by interactive chat opportunities between participants and the entrepreneur.

Use existing social media outlets for promotion and interaction

While implementers may have access to their own proprietary platforms, it can be easier to leverage the reach and networks already accessible through existing social media outlets.

5.4 Developing Angel Networks

Vietnam is still emerging in this area

The first step to stimulate angel investment networks involved raising awareness, finding respected, high net worth technology entrepreneurs as champions and organizing networking events and awards. Approximately 500 people attended events, showing interest, but to date there are no known significant investment results.

Vietnamese role models are essential to kick-start the industry

To date, angel investment activity in Vietnam is relatively low. High net worth individuals, who are potential angels, wait for successful exits, to show them this style of investing can be worthwhile. It is a matter of timing, noting that the banking and real estate crises in the country in 2012 made investors even more cautious.

Early stage matching funds help

Early stage matching funds from government would be beneficial and provide emerging angels confidence. As a result, from time to time Vietnamese start-ups tend to relocate their head offices to Singapore, where the government offers early stage matching funds, to secure early stage funding.

Angels from regional areas can be relevant role models, but learning from Silicon Valley is important

The low-hanging angel investor fruit may well be angels and investors from other regionally relevant countries, including Singapore and Japan. This is illustrated by the two case studies presented: Apotta received investment from Hong Kong, Singapore, and Japan; and Yton received investment from Japan.
Taking start-ups to Silicon Valley is still worthwhile, to infuse energy into the local ecosystem and to learn from what works in the United States. Indeed, TOPICA and other technology entrepreneurs interested in becoming angels invested in a fund to take four to five companies to Silicon Valley for these reasons.

**Virtual incubation is attractive to emerging angel investors**

As one technology entrepreneur noted, “It is a good system. Teaching and assisting in the Founder Institute program and activities allows you to get to know the companies….I got to know them well and it gave me the confidence to invest.”

As one of the few existing angels stated: “Investors from overseas have the money, but don’t know Vietnam. Local investors can be more beneficial to Vietnamese companies, which is why [the company] chose me, instead of overseas investors.”
6 Summary

The light-touch model emerging in Vietnam is particularly relevant for countries with high levels of distrust between the public and private sectors, poor infrastructure, and possibly countries emerging from conflict or rigid systems of governance, in which traditional incubation run by government entities is dominant. However, reliant upon the private sector and large numbers of youth interested in entrepreneurship, the model can work smoothly in a lower-middle-income country such as Vietnam, in which some early pioneers have led the way with successful technology businesses, primarily in the IT industry; where economic growth is clearly evident (despite rising inflation, property bubbles and banking collapses); and where the population is entrepreneurial by nature and aspires to start businesses. In addition, it is necessary for these private sector efforts to be led and championed by individuals with relevant leadership skills and with vested interest in developing the local innovation and entrepreneurship ecosystem.

To date, there is little overlap between the privately led light-touch virtual incubation ecosystem and traditional, property-based, government-sponsored incubators. It would be very difficult for governments to put in place the broad range of early stage activity occurring in the ecosystem in Vietnam, involving challenges, competitions, networking events, boot camps, start-up days and weekends, accelerators, and co-work spaces. Over time, as trust slowly develops between the private and public sectors, more public-private–style incubation efforts may emerge and be feasible.