



ENGLISH only



Mission to Serbia and Montenegro

ORGANIZATION FOR SECURITY  
AND CO-OPERATION IN EUROPE

Economic and  
Environmental Department

Cakorska 1, 11000 Belgrade, Serbia and Montenegro - Phone: + 381 11 3606156, Fax: +381 11 3672429

## **BUSINESS INCUBATORS IN SERBIA AND MONTENEGRO**



On May 19, 2005, the first **Business Incubator Center in Serbia and Montenegro** was opened in Knjazevac, in Eastern Serbia. This pioneer project to foster SME development and to encourage local entrepreneurs, was supported by the OSCE Mission to Serbia and Montenegro, Economic and

Environmental Department. The project was launched almost three years ago and, after huge efforts of our implementing partner, the Timok Club, it became operational beginning in 2005.

**Business Incubator Center** is the Timok Club project, which, based on international experience, meets the needs of small enterprises from Knjazevac municipality and helps them in growth and development.

**The Timok Club** is a non-profit and non-political organization founded in 1997 in Knjazevac.

The mission of the Timok Club is to raise sustainable and environmentally secure development of the Timok region together with the improvement of life conditions for the inhabitants and cooperation with the neighboring countries.

Business Incubator Center has for its aim:

- To follow the work and give support to enterprise members
- To lower fixed costs (office costs, photocopy, internet, fax, administration)
- To enable professional, flexible space, with the room for meetings
- To increase success of small enterprises

- To support privatization process etc.

### What does the Business Incubator Center look like?

Business Incubator Center is settled in one of the halls of IMT factory. The space for production is 1.200 m<sup>2</sup>. To this we should add 400 m<sup>2</sup> of office space and 600 m<sup>2</sup> of parking lot, space for loading and downloading of merchandise and a big yard.

The space is separated in movable modules which could be easily adjusted to the needs of beneficiaries. At the moment there is space for 11 small enterprises. Common space for presentations and conferences is enabled, as well as two meeting and workshop rooms and a kitchen.



### Which are the main services of Business Incubator Center?

- Providing the business space with all the necessary conditions for work, under favorable conditions on market
- Possibility of using space for meetings and presentations with all the equipment



- Possibility of using computers and other office materials
- Access to internet
- Mentor for every enterprise in first 6 months
- Consultant services for making a business plan
- Business management skills seminars
- Office leading, internet use, keeping and modernization of IT equipment seminars
- Help in conducting marketing and public relations

### Which enterprises have advance in membership entering of Business Incubator Center?

- The ones which are production oriented,
- Newly formed,
- Offering a job to a bigger

number of workers,

- Which can quickly start doing the activities,
- Which do not damage the environment
- Which have the best business plan.

### Who is deciding of accepting enterprises in BIC?

Decisions about accepting enterprises in BIC are being brought by the Council of BIC, made of representatives of:

- Municipality of Knjazevac,
- Association of private entrepreneurs,



- IMT factory
- The Timok Club,
- National employment service,
- “Eksimbank” and “Commercial Bank” branches.

### **How long the enterprises can stay in BIC?**

The longest period is 4 years, which is sufficient period for the enterprise to grow strong. In that period a newly formed enterprise will pay membership which covers only a part of market price for renting of business space:

- first year 25%
- second year 50%
- third year 75%
- fourth year 100%

### **Who are the main donors and partners?**



Main donors of the project are **OSCE**, CHF, Open Society Fund, and CESO. Main partners are the Municipality of Knjazevac, IMT Factory, Association of entrepreneurs from Knjazevac, Regional Chamber of Economy and Regional center for small enterprises “Timok” Zajecar.

**Case Study:**  
**Business Incubator Center - Knjazevac**

May 2005

## **Summary of Business Incubators in EU**

### **Definition of Business Incubator Center (BIC)**

A business incubator is an organization that accelerates and systematizes the process of creating successful enterprises by providing them with a comprehensive and integrated range of support, including:

- incubator space
- business support services, and
- clustering and networking opportunities

This is one out of many definitions that describes BIC. Anyway, BIC provide entrepreneurs with a supportive environment to help establish and develop their projects. By providing services on a 'one-stop' basis, business incubators can significantly improve the survival and growth prospects of start-ups and small firms at an early stage of development.

## **1. Setting Up and Operating Incubators**

***1.1 Business incubators should be designed to support and be part of a broader strategic framework – either territorially orientated or focused on particular policy priorities (e.g. development of clusters), or a combination of these factors.*** Incubators should not be stand-alone entities but rather work along side other organizations and schemes to promote broader strategies.

***1.2 It follows that incubators should be promoted by an inclusive partnership of public and private sector stakeholders.*** Business incubator partnership structures will reflect overall regional, technology and business support strategies. Incubators are typically promoted by a wide range of organizations from the public and private sectors including local authorities, universities, companies, and financial institutions. Public authorities have an important catalytic and leadership function, and can provide crucial pump-priming investment during the development phase of incubators.

***1.3 During the development phase, it is important for the market to be tested and a business plan to be devised that can provide a framework for incubator operations.*** The incubator business plan should set out the rationale for the project and how it addresses market failure (if this is the rationale), the target market, expected levels of demand, a detailed operating framework (infrastructure and services), estimated capital investment and running costs/sources of funds, how the incubator will be managed, and other factors.

***1.4 There are a number of different set up funding models but the evidence from this project is that public support for the establishment of incubators in Europe will remain critical for the foreseeable future.*** The analysis suggests that public funding accounts for a high proportion of the set up costs of most incubators and for around 37% of operating revenue.

***1.5 Likewise, there are different ways in which incubators cover their operating costs and whilst many incubators rely on public subsidies, there is a strong argument in favor of dependence on this source of revenue funding being minimized.*** The

highest proportion of cost relating to staff (41%) followed by client services (24%), maintenance of buildings and equipment (22%), and other costs such as utilities (13%).

## **2. Business Incubator Functions**

***2.1 The provision of physical space is central to the incubator model. Standard good practices now exist with regard to the most appropriate configuration of incubator space.*** European incubators typically have around 5,800 square meters of space for tenants, sufficient to accommodate some 18 firms at any one time in a variety of units. Smaller incubator space than this is likely to make it more difficult to generate economies of scale. Another key lesson is the need to operate at no more than around 85% occupancy levels.

***2.2 The value added of incubator operations lies increasingly in the type and quality of business support services provided to clients and developing this aspect of European incubator operations should be a key priority in the future.*** There is a widespread acceptance that although central to the incubator model, there is now a more or less standard model for the optimal configuration of physical space and that it is the quality and range of business support services that should be the focus of best practice development. This research suggests that there are four key areas in this respect: entrepreneur training (often part of 'pre-incubation'), business advice, financial support (in some cases from incubator seed/venture capital funds but usually through links with external providers), and technology support.

***2.3 Business incubators should charge clients for the support services they provide but the level at which prices are pitched should be designed to minimize the risk of 'crowding out' private sector providers.*** The research suggests that relatively few incubators (around 4%) provide business support services on an entirely free basis to clients. However, pricing levels tend to reflect an element of subsidy (35% of incubators stated that pricing was below market levels).

***2.4. With regard to incubator operating procedures, it is essential that there is a clearly defined target market and that this is reflected in the admission criteria.*** Experience suggests that the more successful incubators are the ones that have a particular technology and business focus. A focus of this type enables incubator managers to develop specialized knowledge and skills, and facilitates the clustering of client companies (e.g. enabling business relationships to develop between incubator tenants).

***2.5 Whilst achieving high occupancy rates is important to generate income, this consideration needs to be balanced against the importance of maintaining selective admission criteria.*** Achieving high occupancy levels quickly is desirable from the point of view of income generation but can have disadvantages in terms of being able to react flexibly to the changing requirements of tenants. Similarly, there is a danger that the selective approach to admitting projects will be abandoned in favor of a 'firstcome-first-served' approach.

***2.6 Likewise, adopting exit criteria that ensure a turnover of client companies is desirable even if the turnover of firms makes revenue levels from rental income and other services less certain.*** Similar considerations apply to the question of exit rules. The research suggests that most incubators do, in fact, limit the length of time companies can remain as tenants (typically to around 3 to 5 years). Moreover, in many cases, companies move on to new locations because they need more space to grow. Graduated rentals rising to above market rates after a given period of time is another

method that a number of incubators (24% of the sample) adopt to encourage firms to move on. At the same time, highly specialized incubators – e.g. biotechnology incubators – may have longer tenancy periods for their clients reflecting the nature of business activities.

**2.7 *After care and networking with firms that have left an incubator should be regarded as just as important as providing services to incubator tenants.*** The destination of incubator ‘graduates’ should be monitored with companies being encouraged to remain in the local area. Graduate retention is important in ensuring that incubator operations have long-term benefits to the areas where they are located. Moreover, experience suggests that many firms are at the most vulnerable stage in their development when they leave an incubator. The provision of after-care services to ‘graduates’ is therefore critical to ensuring sustainable incubator impacts.

**2.8 *The quality of the management team, and adoption of a business-like approach to running incubators and monitoring clients, is crucial to performance and best practices in this field are becoming standardized.*** European incubators typically have around 5 to 6 staff (half of whom are managers) with senior personnel coming from a business background. A key efficiency indicator is the ratio between staff and companies. Based on this research, the ratio would appear to be 1: 3.2 (tenants) or 1:5.0 (tenants plus other clients). New economy incubators have an even higher ratio than this.

**2.9. *The type of activities client companies are pursuing, in particular the technology/knowledge intensity of these activities, is the key factor (rather than physical features or operating modality) that should be used to differentiate one type of incubator from another.*** In the past, incubator models have tended to be classified according to the nature of inputs (public, private, etc) and processes (type of incubator).

### **3. Evaluating Business Incubator Services and Impacts**

**3.1 *The performance of business incubators should be judged primarily in terms of the results achieved, i.e. the impact they have on businesses, wider economic development and other priorities.*** A key message from this project is the need to judge incubator performance in terms of the long-term impacts achieved rather than short-term measures such as occupancy rates or failure rates.

**3.2 *In assessing the impact of incubators, there is a need to obtain feedback directly from client companies and greater priority should be given to this than has hitherto been the case.*** An important lesson to be learnt from this project is that incubator impacts can only be properly assessed by obtaining information from companies. Previous research has tended to rely on survey data from incubator managers alone. Whilst this provides good insights to the ‘input’ and ‘process’ aspects of their operations, it does not provide the basis for an in-depth understanding of ‘outputs’ and impacts. Feedback from companies is also important from a more practical point of view, i.e. client management and networking with ‘graduates’.

**3.3 *Likewise, a distinction should be made between gross and net impacts achieved by business incubators.*** Incubator impacts are likely to be considerably under-estimated if only direct (gross) effects are taken into account. However, there are other essentially practical reasons for undertaking a more probing assessment of incubator impacts: investigating the extent of displacement is important in helping to ensure that an incubator’s target market is appropriately defined - if support is being given to projects that compete directly with existing local businesses, then the net value added of the incubator’s operations is questionable. Likewise, an understanding of additionality

involves obtaining client feedback on the role played by an incubator in the development of their business and this information should help to ensure that the right services are being provided.

***3.4 Although ‘new economy’ incubators are currently out of favor, there are many lessons to be learnt that are relevant to the more ‘traditional’ model (and visa-versa).***

This research suggests that there are three main lessons to be learnt from the experience of ‘new economy’ incubators: firstly, although market conditions are currently unfavorable, ‘new economy’ incubators have demonstrated a potentially profitability model that is attractive to the private sector; secondly, ‘new economy’ incubators have shown that the business incubation process can operate successfully on a virtual basis; and linked to this, they have demonstrated that the real value added of the business incubation approach lies in the sharing of know-how rather than physical aspects. By the same token, the ‘traditional’ model has enduring strengths and these are examined in the report.

***3.5 Across Europe, there are a variety of different business incubator models and precise modalities should reflect local, regional and national circumstances and priorities.*** There are a large number of different incubator definitions and models across Europe. Although they share basic features in common, there are also significant differences relating to stakeholder objectives, target markets, and the precise configuration of incubator facilities and services. These differences are partly a reflection of location-specific factors of a cultural, institutional, and policy nature, and it is important that these local factors are taken into account in defining best practice.

***3.6 Similarly, although only limited comparisons are possible, the research confirms significant differences between the way in which European and US incubators operate and therefore scope for a sharing of experience and know-how.*** Differences exist between the way in which business incubators operate in Europe and the USA. Although the evidence is far from conclusive one way or another, this analysis suggests that whilst US incubators, for example, demonstrate particular strengths with regard to company financing and some management functions, their European counterparts have probably developed more expertise in fields such as entrepreneur training, virtual networking, and integrating incubator functions into broader strategies.

***3.7 Overall, this report suggests that business incubators are a very cost-effective instrument for the promotion of public policy objectives.*** The relatively low cost per job and other less easily quantifiable benefits demonstrated by business incubators covered by this research suggest that they are a very effective method of promoting knowledge intensive, new technology-based activities. Direct comparisons with other types of schemes are difficult to make, one reason being that incubators usually combine many features of other schemes (e.g. the provision of advisory services) and/or are closely linked to them.

## **4. Promoting Best Practice in Business Incubation at an Operational Level**

***4.1. Benchmarking and best practice sharing should focus on the four key incubators service areas identified in this report – entrepreneur training, business support, financing, and technology support.*** As argued earlier, practices are now more or less standardized with regard to the provision of incubator space and the challenge facing incubators is more to focus on developing first-class business support services, including a virtual dimension for firms not located in incubators. Two areas – entrepreneur training and financing -might be prioritized since these appear to be where there is the least know-how.

**4.2. Business incubators should be encouraged to periodically undertake impact assessments.** There are a number of reasons why incubators should undertake impact assessments, not least of all to demonstrate the benefits of public support. However, there are considerable methodological and practical data collection complications. We recommend that incubators themselves, and the national associations (if possible, supported by the Commission) should (a) identify best practice in this field; (b) develop a common methodology based on best practice; and (c) agree on one or more pilot

exercises to determine the best way of proceeding.

**4.3. A further priority should be for business incubators reduce their dependence on public subsidies.** In this report we have argued that public subsidies for business incubators have an important role and that in many cases such support is accepted as a cost-effective way of helping to achieve policy objectives. However, even where this is so, there is a strong argument for encouraging individual incubators to reduce their dependence on public funding so that available resources can be spread more widely and used to promote new initiatives. The report has identified a number of ways in which incubators can improve income generation and hence their overall financial sustainability.

**4.4 There is a need to 'professionalize' the occupation of business incubator management.** As the report has made clear, the quality of the management team is a key to successful incubator activities. At present there is no recognized professional qualification or standard in this field although specific incubator management functions (e.g. personnel management, providing financial advice to companies) are of course areas where such standards exist. Consideration might be given, however, to developing EU level professional standard relating to overall incubator management.

## **Knjazevac Business Incubator Center**

### **Background and Regional Context:**

Business incubation is one of the important tools available to assist new business development and catalyze the value creation process. Consequently, incubation activity in Serbia is today considered as an important economic development tool in both the local, regional and national contexts to promote early stage business creation, accelerate the entrepreneurial process, encourage SME innovation and create new jobs. There are up to 10 initiatives for setting up Business Incubator Centers and technological parks in Serbia (Nis, Subotica, Smederevska Palanka, Bor, Novi Sad, Zrenjanin, Beograd etc). These are in different development stages, mainly in a stage of preparation of feasibility studies.

Knjazevac municipality has a population of 40,000. There is high unemployment in Timok Region and

Knjazevac and the economy suffered considerably from the early 1990s. Over the past five years, thanks to a more favorable political climate, privatization of public companies, foreign assistance, availability of a qualified and young workforce and other factors, Serbian and Knjazevac's economy is slowly recovering.

### **Knjazevac BIC - Incubator Operations**

The Knjazevac Business Incubator Center (Knjazevac BIC) was established in 2005 to assist in the creation and development of SME sector in Knjazevac municipality. Knjazevac BIC is a not-for-profit initiative established by 'Timok Klub' from



Knjazevac. Project was initially funded by the OSCE, USAID/CHF, Fund for Open Society and CESO. Partners on the project are Municipality of Knjazevac, IMT Factory (provided facility for the Incubator), Regional Chamber of Commerce Zajecar, Association of Entrepreneurs Knjazevac and Regional SME agency in Zajecar.

A number of preparation activities had been done before actual opening of the BIC, such as: investigation of a market, study trips to Vidin (Bulgaria) BIC, within the activities of Euroregion DANUBE 21, in order to find out what best practices were, creation of a regional profile, making of feasibility study and business plan, attracting the donor community, project development activities, signing of contracts and agreements with donors, partners and companies, actual renovation of the BIC facility etc.

Knjazevac BIC's key objectives are to provide support to small tenant companies, to increase the level of entrepreneurial activity and innovation within the region and improve the survival rates and growth prospects of new and existing small enterprises.. The BIC provides practical help and assistance to entrepreneurs involved in developing new business activities.

At the beginning, Knjazevac BIC supports seven new start-up and two already existing companies, all of them are dealing with production. Knjazevac BIC manages the Timok Klub, NGO whose mission is economic development of the Timok region and cross border cooperation with neighboring regions.

### **Knjazevac BIC – Key Data**

BIC is situated in the part of IMT factory hall. Space of the production facility is 1200m<sup>2</sup> and it is divided into eleven modules. Modules are divided by movable compartments, so the size of the space can be adjusted to the tenants needs. Parking lot and industrial entrance comprise additional 600m<sup>2</sup>. BIC also has conference room, two offices for the BIC management and joint kitchen, all admin space covers 400m<sup>2</sup>. Nine companies have signed contracts with Timok Klub and started business activities in BIC--incubator occupancy rate of 82%. There is space for another two companies to become tenants. Capital investment cost is about \$250.000, much below EU benchmark. Operating costs, average jobs per tenant company, average cost per job and other BIC performance statistic is not yet known.

### **Knjazevac BIC – Services**

Knjazevac BIC offers its clients a range of business support and consultancy services:

- Favorable rent of quality and equipped space, which range from 25% up to 100% during the occupancy of module/business unit.
- Available (free of charge) conference room with necessary equipment for the meetings, trainings, presentations etc.
- Available IT and other office equipment, access to the Internet for tenant companies
- Mentor services for each tenant company during the first six months
- Business planning guidance
- Access to finance
- Variety of trainings related to business management and skills

- Marketing assistance and advise on business expansions
- Public relations assistance

### **Admission criteria**

In terms of admission criteria, the incubator conducts an assessment of the viability of a prospective tenant's business plan before granting admission. Admission to BIC is not targeted on a sectoral basis. BIC is a mixed usage incubator although Timok Klub, which manages the center, tries to encourage start-up companies from production sector to become a member of the BIC. Besides the production element, the following criteria are applied in selection process: start-up companies have the advantage, number of new jobs created within the tenant company, period of starting business activities to be as shorter as possible, quality of a business plan and compliance with environmental and other regulations.

Decision on the tenant company acceptance into BIC is done by the BIC Council, which consists of representatives of Knjazevac Municipality, Knjazevac Association of Entrepreneurs, IMT Factory, Timok Klub, Labor Market and Commercial Banks (Eksim Bank and Komercijalna Bank).

In terms of exit criteria, the incubator imposes a maximum tenancy length of 48 months on incubator tenants. The 48 months deadline is determined by the belief that the incubator's role is to assist early stage ventures only. Price for tenant company space rent starts from 25% of the market price in the first year up to full 100% in the last (fourth) year.

### **Views on Key Issues**

In the view of the available incubator surveys and experience gained in the Knajzevac BIC case, the following points are critical in the successful set up and management of business incubators:

- Strong private public partnership – the need to leverage the support of the public and private sector and the local community is regarded as critical. Knjazevac BIC has forged strong links with local, regional and international partners. Close partnership was regarded as integral to the success of the incubation concept, in that it facilitated the leveraging of resources and the knowledge and contact networks necessary to maximize the potential benefits of the incubation experience. Knjazevac model of setting up an incubator can be used in other municipalities across Southeastern Serbia.
- Quality and professionalism of Business Support Services –importance of having a professional management team with business experience.
- A commercial-oriented team builds credibility with the local financial and business community and this effect positively on tenant firms.
- Importance of Community Involvement– encouraging community involvement as a means of bringing on board the community was considered as an essential part of the process. BIC continues to play an active role in Community development and has supported Community-led education and training initiatives.
- Importance of capacity building and achieving critical mass: The incubator is managed on a commercial basis with a strong private sector management ethos. The management should continue to have commercial approach in order to build

credibility with the private sector, achieve critical mass and generate sufficient revenue to provide high quality business support services and build capacity

- Based on best practices across EU, Knjazevac BIC could try to set up Seed Capital Fund with a mixture of public and private sector money, with additional financial support from the donor community. The fund would be designed to help commercially viable businesses with an innovative focus to get started and set up their operations.
- The BIC could also invite local private sector players to the meetings, which provides networking opportunities for tenants.
- Regular Monitoring and Appraisal: Knjazevac BIC should set up a comprehensive monitoring scheme to evaluate the performance of its tenant companies. At the later stages, graduate companies post-incubation life should be also evaluated. This enables the BIC to monitor the wider impacts of its activities

**References for additional materials:**

- Centre for Strategy & Evaluation Services: ‘Benchmarking of Business Incubators’ European Commission([http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/incubators/benchmarking\\_bi\\_part\\_two\\_2002.pdf](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/incubators/benchmarking_bi_part_two_2002.pdf))