

**BLACK SEA
ECONOMIC
COOPERATION**

**KONRAD
ADENAUER
STIFTUNG**

**UN ECONOMIC
COMMISSION
FOR EUROPE**

**WORKSHOP ON
“BUSINESS INCUBATORS FOR NURTURING START-UPS”**

Istanbul, 23-25 September 2004

Summary Proceedings

1. The Workshop entitled “Business Incubators for Nurturing Start-Ups” was held in Istanbul on 23-25 September 2004. It was jointly organized by the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation (BSEC PERMIS) and the Representation of the Konrad-Adenauer-Stiftung (KAS), Turkey, in cooperation with the United Nations Economic Commission for Europe (UNECE).

2. Welcoming statements were delivered by Ambassador Tugay ULUÇEVİK, Acting Secretary General of BSEC PERMIS; Mr. Frank SPENGLER, Resident Representative of KAS, Turkey; and H.E. Assoc.Prof.Dr. Adem ŞAHİN, Undersecretary, Ministry of Industry and Trade of Turkey.

2.1. Ambassador T. ULUÇEVİK welcomed the participants of the Workshop on “Business Incubators for Nurturing Start-Ups”. Pointing to the role of SMEs in the economic, social and political development of the Member States of BSEC, particularly those of in transition, recalled that BSEC PERMIS had engaged in a campaign to raise the public awareness in the BSEC region of the importance of SMEs. He expressed thanks to KAS as well as to UNECE for their cooperation in this effort. He emphasized the significance of the Workshop and stated that its main theme related to present day realities and needs and also embraced future challenges.

Underlining the vital role of promotion of entrepreneurship in improving competitiveness of small business, he expressed the view that business incubation seemed to be one of the most effective means for assisting entrepreneurs in starting a new business, nurturing young enterprises, fighting against poverty by enterprise creation and helping them survive during the vulnerable start-up period. He said that business incubators aimed to assist entrepreneurs with enterprise start-ups and development and linkages between incubators and local economy were essential.

In conclusion, he expressed the opinion that the subject required expertise and a professional approach. The expertise of good practices will demonstrate the achievement in this field in Europe and especially in BSEC countries.

2.2. Mr. F. SPENGLER welcomed the Participants of the Workshop on behalf of the KAS. He emphasized the importance of building a sound and strong economic policy. There is a need to reinvest the meaning of a social-oriented market economy. KAS recently published a new document on “Social Market Economy Dictionary”, in which besides strong government policy the importance of innovative entrepreneurs are needed for achievement welfare. He drew attention of the importance of the German SME sector which provides 70% of employees, 80% of the vocational training and 50% of all investment.

2.3. H.E. Assoc. Prof. Dr. A. ŞAHİN, welcoming the Participants in the Workshop, delivered a keynote speech on “SMEs in Turkey and Regional Cooperation.” He mentioned that entrepreneurship had become of paramount importance in Turkey in early 1980s following the economic crisis of large companies. Today the share of SMEs in the Turkish industry amounts to 99.5% . The role of SMEs in the IT sector is continuously growing.

He underlined the importance of financing SMEs, which is still weak in Turkey. Only 5% of all credit facilities are used by SMEs. The Ministry of Industry and Trade provides credit to SMEs in special economic zones. For the time being 26 support centres have been created and a new Law on SMEs was passed by the Parliament. In July 2004, the Turkish Government adopted a new political act on SMEs. During the recent years the Government organized two high-level meetings on SMEs within the BSEC region. The one on regional cooperation aimed at solving some specific barriers on cross-border relations. International investment is an important prerequisite to further development of the SME cooperation.

He further stated that in his view trade was the main area of cooperation among the BSEC countries together with the promotion of FID, technological transformation and business incubators. He emphasized the realization of concrete projects in the common interest of the BSEC Member States.

3. The Workshop was co-chaired in rotation by Mr. Hilmi DEVELİ, Chairman of the Board, Turkish Foundation for Small and Medium Business (TOSYÖV); Mr. Bayram MECİT, Deputy President, Small and Medium Industry Development Organization of Turkey (KOSGEB); Dr. Costas MASMANIDIS, Secretary General of BSEC Business Council; and Dr. Antal SZABO, Regional Adviser on Entrepreneurship and SMEs, UNECE.

4. The Workshop was attended by the representatives of the following BSEC Member States:

Republic of Albania
Republic of Armenia
Republic of Azerbaijan
Republic of Bulgaria
Georgia
Romania

Russian Federation
Serbia and Montenegro
Republic of Turkey
Ukraine

5. The Guest Speaker in the Workshop was from Germany.

The list of participants is attached as Annex I and the Program of the Workshop is attached as Annex II.

6. Assoc.Prof.Dr. Cemil ARIKAN, Sabancı University; Mr. Rolf FRIEDRICHSDORF, Deputy Chairman, Association of German Business Incubation and Innovation Centers (Germany); Ms. Necla HALILOĞLU, Managing Director, Entrepreneurship Development Center, KOSGEB; Ms. Nihal LATİFOĞLU, Head of Section, Directorate General for EU Coordination, Ministry of Industry and Trade of the Republic of Turkey; Mr. Ömer ÖZ, Managing Director, Technology Development Center (TEKMER) of Small and Medium Industry Development Organization (KOSGEB), Middle East Technical University; and Dr. Antal SZABO, Regional Adviser on Entrepreneurship and SMEs, UNECE addressed the Workshop as lead speakers.

6.1. Assoc.Prof.Dr. C. ARIKAN provided general information on business incubation, its role, function and experiences. He started his presentation on perception of science support. There is a paradigm change in supporting science from 1945 through the 1970s until the Government and industry started to work together without military tools. The important thing is innovation: to bring the idea into new products, processes and services. The innovation is the main process to improve living standards into long terms (OECD). He gave the relationship between entrepreneurship and economic growth. Most of the incubators in Turkey are university-linked entities.

He presented the incubator development timeline from project preparation until implementation and explained the main important pillars including (i) workspace and facilities; (ii) business advisory services; and (iii) access to capital. He presented the conditions for success, but also the wrong statement as well as the possible reasons of failures. In 2001, the Government adopted a Law on “Technology Development Region”, which facilitates the establishment of innovative business incubators. Finally he gave information about the Sabancı University and the GOSB (Gebze) Technopark Inc. established within its premises.

6.2. Mr. R. FRIEDRICHSDORF presented the business incubation program and practice in Germany as an important element of SME promotion.

Germany had the first business incubator in 1983 based on an “imported concept” from the USA. The Association of German Technology and Business Incubator Centres (ADT) was founded in 1988. Today Germany has over 360 business incubators. Business incubations and start-ups were strongly linked to local need. Most of the incubators are located in Northern-Westfalia. Where a significant industrial conversion took place. Berlin is one of the most fast growing area with 22 technological business incubators.

He gave definition of the Business Incubation Program and highlighted the critical success factor of this. Germany is moving from seed and expansion phase and quantity toward quality, where an auditing process is taking place certifying 8-12 centres per year.

The future orientation of business incubation need: (i) more entrepreneurship education; (ii) self-sustainability; (iii) global and technological networking; (iv) clustering and specialization; and (v) increase of quality orientation.

6.3. Ms. N. HALILOĞLU shared her experience in financing of business incubators in Turkey as well as worldwide incubator experiences including:

- start-up phase;
- development phase; and
- maturity phase.

In EU setup cost is about 1.9 million Euro and operating costs between 0.3-.5 million Euro per year. She introduced various models of business incubators and their financing. She also provided information about the profit and corporate venture incubators. In general, current sources of revenue of business incubators include: rent, services charges and consultancy fee, donor funding.

Recently, the World Bank provided loan to Turkey introducing a performance based financing model aiming at job creation. For the time being 7 incubators have been established. Candidates have to prepare a business plan which is evaluated by KOSGEB.

6.4. Ms. N. LATİFOĞLU made a presentation on possibility of cross-border partnership in business incubation. Today there is a big change in technology, BSEC countries are changing their competitiveness and they are in the process of entering the technological society. In Turkey “Technology Research and Developing Support”- TEKMER was implemented by KOSGEB in 2003. Incubator Centres enhance the science and technological nurturing start-up companies having innovative project ideas. She also made suggestions how to develop business incubation within the BSEC region (*see Recommendations*).

6.5. Mr. Ö. ÖZ, working in a business incubator operating 12 companies, explained incubator as a tool for economic development and presented a project on cross-border partnership in business incubation through creation of Technology Incubators and Science Parks Network within the BSEC countries.

6.6 Dr. A. SZABO highlighted the best practice in business incubation in transition economies, especially in CEE, Baltic States, Kazakhstan and China. The UNECE organized an Expert Meeting on this subject, established a Team of Specialists on Business Incubation and elaborated Guide on Best Practice in Business Incubation. Comprehensive information is available on the UNECE web-site at www.unece.org/indust/sme/ece-sme.htm.

The UNECE could provide technical assistance to transition economies in developing their national SME policies and support infrastructure including business incubation.

7. An exchange of experiences in promotion of Business Incubators for start-ups by national representatives/experts from BSEC Member States took place. Issues addressed included: i) objectives of business incubation; ii) business environment in the country; iii) the legal framework for business incubation; iv) current situation in the country (services provided by a business incubator, forms of business incubator, strengths and weaknesses of business incubators, financing); v) statistical data on business incubators in the country; vi) experiences (good and bad); and vii) possibility of cross border partnerships in business incubation.

8. The following presentations regarding Business Incubators for Nurturing Start-Ups were made:

a) The representative of the National Network of Regional Development Agencies of the **Republic of Albania** explained that in Albania the business incubators (currently there are two) have tried to serve as centres that generate new micro-enterprises, self-employment, entrepreneurship and business development, but this mission was not successfully completed. Private sector is considered vital for Albanian economic development. Based on foreign support, the two business incubators have been created since 1998; both are striving to achieve financial sustainability, something which will become more difficult once the rent-free period had to terminate in 2003.

He stated that business incubators are rather institutions providing jobs, self-employment and surviving. The framework was provided by the World Bank and the Labor Market Development. There is wider lack of knowledge nationwide. The Government believes that incubator is rather a means of job creation and not a new business one.

b) The representative of the SME Development National Center of the **Republic of Armenia** presented information on the significant role and strategic meaning of SME sector in the economic development of the country, creation of new jobs, enhancement of living standards and formation of the middle class as well as in ensuring social and political stability in the country, the Government of Armenia has identified this sphere as a priority in economic upheaval and takes continual steps to improve it.

Parallel to the technical and financial assistance measures for SMEs, which is very successful, supporting infrastructures creation and development projects for nurturing start-ups are being worked out and implemented. The SME development targeted policy and broader international cooperation will ensure prosperity of the sphere and country's economy with integration into the world economy. Business incubation mechanism seems to be one of the most progressive directions of SME support and development from long-term prospective.

According to National SME Program for 2004, Armenia intends to establish a technology park and a business incubator. The feasibility study and business plan have to be designed. For the time being there is one IT business incubator established by US Viasphere International. It was created to help SMEs operating in Armenia and specializing in information technologies.

c) The representative of the National Confederation of Entrepreneurs (Employers') Organization of the **Republic of Azerbaijan** presented that business incubator is a means of assistance to entrepreneurship and included in the State Programme on Small and Medium-sized Business (2002-2005) in Azerbaijan. He stated that there were no business incubators, technoparks, free economic zones in Azerbaijan today. But in 1995-1996, UNIDO prepared a project on establishment of free economic zone in Sumgait; but the project was not accomplished.

The National Confederation of Entrepreneurs (Employers') Organization prepared a project on "Establishment of Business Incubator as a Support and Acceleration of Entrepreneurship Development in Azerbaijan". The aim of the project is the acceleration of the development of SMEs and reducing regional disparities through regional development in Azerbaijan.

d) The representative of the Agency for SMEs of the **Republic of Bulgaria** mentioned that something is puzzling; that an entrepreneur always knows what he/she intends to do. He also disagrees that business incubator should deal only with high-technology. According to his view a business incubator should promote new technology for new market. Bulgaria does not have any business incubator so far. However, a lot of formally big state-owned companies are leasing their equipment for their employees, who are running their businesses and linking with each-others expressing that they are in such kind of clustering. For the time being, 6 regions expressed their wish to create business incubators.

e) The representative of the National Investment and Export Promotion Agency of **Georgia** explained that Georgia's economy is in transitional period at present and there are no business incubators in Georgia yet. On the other hand there is a political will from the Government of Georgia to establish such incubators. It is obvious that SMEs are essential for developing economy in Georgia. Incubators constitute the critical part for developing that sector. The main obstacles for the development of SME sector are:

- lack of private capital due to improper legislature and Tax Code;
- poor access of SMEs to bank capital due to high annual interest rates and high collateral requirements;
- lack of high technology and know-how.

The new Government is fully aware of the importance of SMEs development for Georgian economic growth and has the political will to promote the above-mentioned sector. The Government is confident that this will jump-start overall economic development by attracting additional capital from other sectors. Development of SME sector will ultimately result in growing economy and achieve the following objectives:

- creating new jobs (SMEs are considered to be the largest employer of economy);
- increasing GDP volume;
- increasing the export production by improving quality production and technological development;
- raising budget revenues;
- creating the success story for attracting private capital conducive to the improvement of investment climate.

f) The representative of the Chamber of Commerce and Industry of **Romania** and Bucharest explained the business environment in Romania- the national strategy and the most important actors who play a role in setting up business incubators. The programs available for financing business incubators (such as PHARE/FIDEL, PAEM, etc.) were presented. She provided information on the services provided by business incubators in Romania and forms of business incubators. In conclusion, she provided fine examples of business incubators active in various cities of Romania.

Out of 35 centers identified as business incubators only 22 are active. Tenants should stay for 3 years and have to pay for rent and services. Out of 17 scientific parks only 3 are active. The business incubator established in Timisoara is an excellent facility created by various donors and aiming at IT development. Another special incubator was set-up for early-retired military personnel, which was financed by the World Bank.

g) The representative of the Academy of National Economy under the Government of the **Russian Federation** looked at the problem in macro- and micro-economic dimensions. The commercialization of innovation is a sophisticated task. In the "President Program" 4000 students were prepared. He prepared monogram in innovation management.

The problem of managing innovation consists of two main spheres: internal and external factors. Internal aspects include managing innovation process- from idea to commercial product. External macroeconomic spheres include financial and organizational methods and instrument of supporting small and middle business in science-industrial sphere. Microeconomics factor- marketing, finance, commercialization and innovations. Commercialization of innovation includes wide list of activities. Last year the course on management of innovation is included in curriculum. The problem of commercialization of innovation has complex character, so structure of teaching plan includes courses on marketing, finance, management, business-planning, training in small groups, case-studies and others.

h) The representative of the Ministry of Economy of **Serbia and Montenegro** emphasized that creating a safe, regulated and stimulating business environment for conducting business, including SMEs is one of the main objectives Serbia and Montenegro. Furthermore, since 2001, the Government of Serbia and Montenegro, with the assistance of donors, has been developing the SME support system and new approach to SME development. Strategy for development of SMEs has been prepared and adopted, National SME Agency and Network of SME Support Institutions have been established, Serbia and Montenegro accepted the EU Charter for small enterprises. Still much has to be done and that also includes establishing of the first business incubator in 2005.

The SME sector in Serbia and Montenegro is about 70,000 active enterprises plus 230,000 sole traders. In 2002, the SME sector provided 45% of GDP. In 2003, the Government adopted a new programme. There is no business incubator so far. Non-financial support for start-ups provided through regional agencies.

i) The representative of the Small and Medium Industry Development Organization of the **Republic of Turkey** (KOSGEB) delivered a presentation in which a project named “Network of Technology Incubators and Science Parks in BSEC Countries” was proposed by KOSGEB.

The representative of the Technology Development Center (TEKMER) of KOSGEB from the Bosphorus University, **Turkey** informed about the role of KOSGEB in the development of relationship of the technology and time framework. The KOSGEB Law No. 3624 as of 17 January 1989 provided the basis for setting up technoparks in Turkey. The Law of Technological Development Zones (TDZ) provided tax exemptions and incentives for incubator development. For the time being there are 16 TDZs. There are 12 KOSGEB TEKMERs in 2004. A special program is oriented at creation of incubator for young entrepreneurs.

j) The representative of Poltava Agency of Regional Development of **Ukraine** (POLARD) that there are 300 business centers and 71 business incubators. However only 7 of them are really incubators in full sense. Business incubators in Ukraine are either specialized or general entities. Financing is provided primarily by international donors and partially by local governors.

The representative of the Business Incubators and Innovation Centers Association of **Ukraine** highlighted the administrative barriers raised against entrepreneurial activities. The Association prepared 34 projects. Bila Tserkva Business Incubator is one of the best practice institution, www.novekolo.info is a new portal financed by the World Bank operating as a network for innovation business development. The obstacles of further development consist of lack of awareness among high-level policy makers as well as lack of skills and expertise. A Law on Business Incubation has been prepared, but was not discussed so far by the Parliament.

Question and answer session was held after each presentation.

9. On the second day of the Workshop, the Participants had the opportunity to visit a Business Incubator, namely KOSGEB - Istanbul Technical University (ITU) Technology Development Center.

Final Discussions and Conclusions

10. The following points were made in conclusion:

1. A Business Incubation Program is an economic and social development process designated to advise potential start-up companies and, through a comprehensive business assistance program, help them establish and accelerate their growth and success.

The main goal is to produce successful businesses that will leave the program, in a timely manner, financially viable and freestanding. These graduate create jobs, revitalize

communities, commercialize new technologies, and create wealth for local and national economies (Summit of Business Incubation Associations, 2003).

2. There is no unique model and general magic recipe. Every incubator has its own profile. The main types of institutions offering business incubation services are:

- classical business incubators;
- innovation centres;
- science/technology parks;
- industrial estates;
- export processing zones;
- clusters and networks;
- virtual business incubators.

3. The major steps of establishing business incubators should include the following:

- preparing a feasibility study;
- proper selection of the location, design, specification and preparing a business plan;
- marketing both for stakeholders and authorities establishing the incubator as well as among possible tenants;
- financing of the establishment of the business incubator;
- putting together the right management team;
- searching the supervisory board and organizing the auditing/evaluation of operating business incubators.

4. Conditions for success of business incubators are based on the following principles:

- government support- both centres and local authorities- are relevant, but not direct involvement is requested;
- business incubators should operate on non-for-profit principles, however they should reach the breakeven point in order to reach the self-sustainability;
- properly designed shared services including premises, office and technology equipment, training, advisory services, technology support and marketing;
- management that develops and orchestrates business, marketing and management resources as well as the relationships tailored to the need of the business clients;
- access to financing necessary for start-up and business growth.

5. Wrong statements concerning business incubation:

- incubator is a simple concept, easy to implement;

- incubator is just a building with shared facilities;
- incubators are rapid creators of employment;
- incubators make money.

6. The major reasons why incubators fail are the following:

- poor preparation of business plan and market strategy;
- inadequate capitalization;
- poor location;
- poor management, especially unqualified general manager.

7. For the time being the business incubation process in majority of the BSEC countries are in infant stage. The transition economies require assistance in understanding the concept of business incubation, designing and establishing business incubators especially in industrial backyards and rural areas.

Recommendations

11. Some possible ways of creating a cross border partnership in business incubation could be the following:

1. Being in contact with some associations related to the business incubation, like the International Network for Small and Medium-sized Enterprises – INSME, EBN (The Association representing the European BSEC Network), IASP (International Association of Science Parks), SPICE Group (Science Park and Innovation Centers Experts).

2. Establishing an association for business incubators of a specific region like Black Sea Incubation Centers Network, where the members can find the opportunity to communicate, cooperate and share the best practices.

3. By this association to be established or under the lead of some organizations, like Black Sea Economic Cooperation, some meetings, visits, training programs and similar activities can be organized to share the best practices about incubation and provide the managers and staff of these centers acquire relevant skills and knowledge. Main topics of training programs can be:

- financing of incubation centers;
- designing incubation center infrastructure, services and support mechanisms;
- determining incubation center acceptance and graduation criteria, etc.

4. Organizing some exchange programs between the incubation centers of different countries like exchanging some staff of the centers or the incubator firms for a determined period to provide them gain different perspectives and opportunities.

5. Sharing of some physical spaces among the incubators, like use of meeting rooms, conference facilities and similar common spaces of an incubator by the cooperated incubators to make some organizations in that country.

6. Incubators can give links to the web pages of cooperated incubators or providing information on these incubators from their web pages.

7. A web page or portal can be established to create cooperation and communication opportunities among the incubators as well as among the companies of these incubators. The following tools can be included in this page such as:

- a database describing the companies, their product/services and capabilities;
- implementing interactive platforms and organizing web-based seminars;
- messaging and groupware solutions;
- online technology and investment exchange tools, etc.

In the project entitled “Network of Technology Incubators and Science Parks in BSEC Countries” proposed by KOSGEB, the main aim of the Network is to increase the volume, value and success rate of incubation centers of BSEC Member States by sharing the best practices, management skills and resources.

Concluding remarks

12. The concluding remarks were made by Ambassador Tugay ULUÇEVİK, Acting Secretary General of the Permanent International Secretariat of BSEC. Ambassador ULUÇEVİK, pointing to the concrete ideas and projects advanced in the course of the discussions, stated that they were all compatible with the project-oriented approach adopted in the BSEC Economic Agenda and that concrete projects duly presented by the BSEC Member States could be evaluated within the mechanisms of BSEC Project Development Fund provided that they meet the criteria established therein.
