

PROGRAMME

FOR BUSINESS INCUBATORS AND CLUSTERS
DEVELOPMENT IN THE REPUBLIC OF SERBIA

2007-2010



REPUBLIC OF SERBIA
Ministry of Economy

PROGRAMME

FOR BUSINESS INCUBATORS AND CLUSTERS
DEVELOPMENT IN THE REPUBLIC OF SERBIA
2007-2010



REPUBLIC OF SERBIA
Ministry of Economy

Introductory Note

From the very start of its mandate, as one of the priorities in work and creation of an economic environment, the Government has set creating new jobs. It was not easy to adjust the recovery processes to the Serbian economy without anguish, nor to make programmes and plans in order to create jobs with a full meaning of working and to absorb workers from the process of privatisation and transition. One such programme with a clear definition of the employment development strategy is the Programme for Business Incubators and Clusters Development in the Republic of Serbia 2007-2010.

The Programme was adopted by the Council for Small and Medium-sized Enterprises and Entrepreneurship in December 2006. The Programme implements the “Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship 2003-2008” and the “Plan of the Government of the Republic of Serbia for Stimulating Small and Medium-sized Enterprises and Entrepreneurship Development, 2005-2007”. The Programme has been jointly prepared by the Ministry of Economy, Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship and the ENTRANSE/SINTEF Project Team with financial support from the Serbian and Norwegian governments.

The objective of The Programme for Business Incubators and Clusters Development in the Republic of Serbia, 2007-2010 is to generate new jobs, new enterprises and increase competitiveness through development of entrepreneurs, enterprises and institutions for support to the sector of small and medium-sized enterprises in the Republic of Serbia. The defined goal will be achieved through implementations of the Programme components, namely institutional development, government and donor harmonisation, business incubation and innovation networking. The Government of the Republic of Serbia anticipates establishment of the permanent small and medium-sized enterprises and entrepreneurial infrastructure, by strengthening institutions on the local and regional levels, establishing business incubators and parks, promoting business 2 business networking, clusters and other innovation activities.

The Programme offers a framework and joint platform for the ongoing projects and initiatives, as well as for those which are planned. We hope that the concept presented in this document will contribute to the use of existing instruments and experiences acquired earlier.

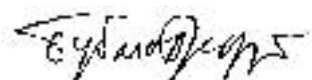
Furthermore, the purpose of this document is to promote small and medium-sized enterprises and the entrepreneurial sector, attract development partners, public and private sector and to contribute to better coordination of activities within the sector.

Keeping in mind the ongoing projects and current initiatives, we firmly believe this Programme will be of substantial value. In this phase, both the Programme and financial resources provided from the State Budget, demonstrate the willingness of the Government of Serbia to support small and medium-sized enterprises and entrepreneurship infrastructure development.

It is very important that the complex process we initiated doesn't stop. Therefore, the Ministry of Economy will take the leading role and proactive approach towards development of small and medium-sized enterprises and entrepreneurship. I invite all stakeholders, international development partners, other ministries and governmental agencies to support our initiative and work in partnership. We should join forces so that the available resources would be used efficiently and effectively.

Belgrade, December 2006

*Minister of Economy
Dr Predrag Bubalo*



Summary

This Summary is a Programme outline, with an aim to give the reader a simpler insight into the document and faster access to certain areas.

The Programme is formulated in accordance with the basic principles of the “European Charter for Small Enterprises”. It is an additional instrument to implementation of the Government’s strategies, such as “Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship 2003-2008”, “The Plan of the Government of the Republic of Serbia for Stimulating Small and Medium-sized Enterprise and Entrepreneurship Development 2005-2007”, and the “National Strategy for the Economic Development of Serbia, 2006-2012”. It secures that the work of Programme partners and all stakeholders is “moving” in the same direction and that they, through their activities, contribute to common results.

The Programme’s objective is to generate new jobs, new enterprises and increase competitiveness through development of entrepreneurs, enterprises and SME institutions in the Republic of Serbia.

The Programme defines the following specific objectives for the period of 2007-2010:

- Strengthened public-private partnership;
- Minimum 15 business incubators established and operational;
- Minimum one park established;
- Serbian Association of Business Incubators established;
- Innovation Relay Centre established;
- Minimum 10 operative clusters established;
- Business activities increased.

Bearing in mind the comprehensiveness of the Programme, which includes activities of forming infrastructure, strengthening national and local institutions, as well as development of business activities, the estimated total investment for the full Programme implementation is € 23 million.

The Programme consists of the following documents:

- Methodology and Programme design;
- Project proposals;
- Attached documents - analysis, instructions and reports.

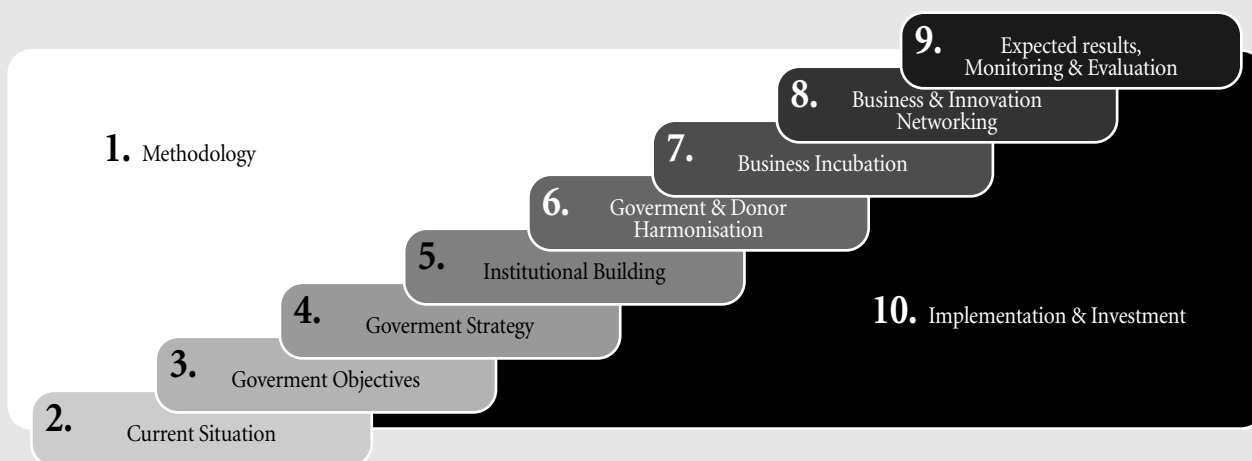


Figure. Programme Value Chain Model

1) Methodology and Programme Design

“Methodology and Programme Design” presents the general framework of the Programme. The Programme methodology is conceptualised and presented as a value chain, consisting of the following components and their interdependency:

1. Methodology;
2. Current situation;
3. Government objectives;
4. Government strategy;
5. Institution building;
6. Government and donor harmonisation;
7. Business incubation;
8. Business and innovation networking;
9. Expected results, monitoring and evaluation;
10. Implementation and investment.

Each component is based on analysis and has a developed concept of application.

Components 2, 3 and 4 represent the basis of the Programme and provide a framework for design and implementation of concrete projects.

Components 5-8 are the main pillars of the Programme based on the Government of Serbia's (GoS) strategies. These components supplement each other. Therefore, their activities will be conducted at the same time, gradually building the permanent SME and entrepreneurial sector infrastructure. Implementation of the following components will lead to the realisation of the defined results:

- Institution building;
- Government and donor harmonisation;
- Business incubation;
- Business and innovation networking.

In “Methodology and Programme Design”, the value chain analysis is presented, as well as its project components, their interdependencies, results and explanation why this route of action is chosen to achieve objectives.

2) Project Proposals

In the “Project Proposals” document, concrete initiatives “from the field” have been presented, based on temporary possibilities of the local level partners. We emphasise that the “Project Proposals” document is dynamic and open for new initiatives and projects that can be designed during this Programme implementation period. It is dynamic due to the continuous development of existing projects and introduction of new ones, institution building and business networks establishment. Some of the projects are already in the implementation phase, like the business incubators in Niš and Zrenjanin or auto clusters. Other projects are already in the final preparation phase and are ready to be implemented, e.g. the business incubator in Subotica or establishment of the Innovation Relay Centre. The third group of projects is still in the initial phase, e.g. establishment of a business incubator in Pirot.

Although the given framework remains unchanged, the Programme has a highly dynamic and applicable aspect. During the implementation phase, changes in initiatives, market conditions, priorities and policies of the Government of Serbia will be taken into consideration.

The “Project Proposals” document presents concrete projects for the following components: institution building, government and donor activities harmonisation, business incubation and business and innovation networking. It is presented in the form of project proposals, e.g. “Project Proposal for Institution Building on the National Level”, “Cluster Development Project in 2007” and “Innovation Relay Centre Establishment”, etc.

3) Attached Documents - Analysis, Instructions and Reports

During 2004-2006, the documents presented in “Attached Documents – Analysis, Instructions and Reports” have been prepared:

- Regional Economic Analysis of the Republic of Serbia;
- Step by Step - Guide to Creating Business Incubators;
- Benchmarking Report – Business Incubators in Central and Eastern Europe
- Overview of National and Regional Business Incubator Associations;
- Overview of Donor Financial and Procurement Mechanisms for Project/Programme financing in Serbia;
- Export Risk Check.

Documents provide practical information, analysis of specific topic, instruments and guidelines necessary for Programme implementation.

These documents are shortly described in “Methodology and Programme Design”. Full versions are available on the following websites: www.mpriv.sr.gov.yu and www.sme.sr.gov.yu.

The Programme has been prepared through joint work of the Ministry of Economy, the Leading National Partner, Serbian Agency for SMEE, the National Implementing Partner and the SINTEF/ENTRANSE team, the International Implementing Partner, with the support from the Serbian and Norwegian governments.

Content

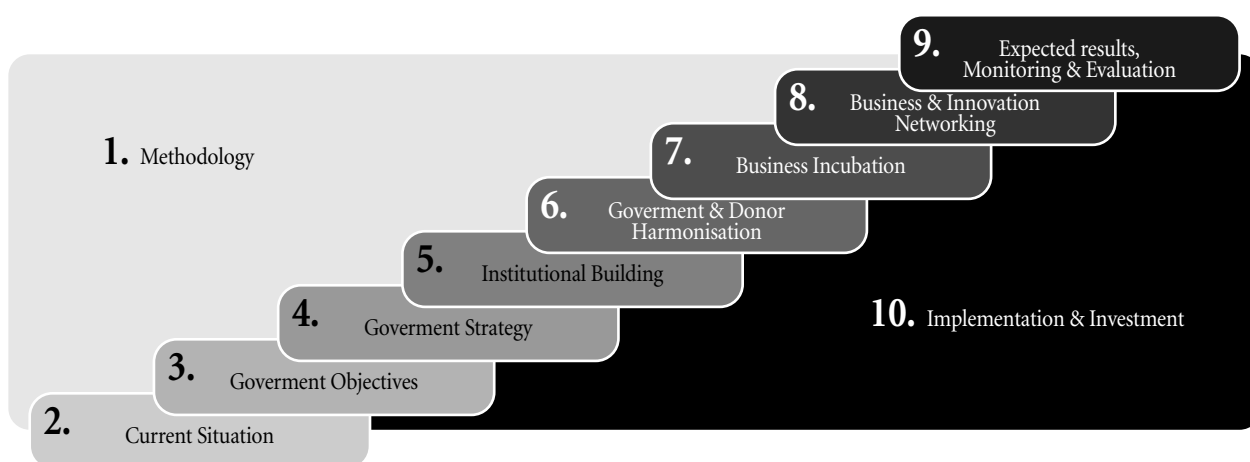
1. Methodology	10
2. The Current Situation	12
2.1. General Context - SMEE Sector	12
2.2. Regional Economic Analysis of the Republic of Serbia	12
3. The Serbian Government Objectives	21
4. The Serbian Government Strategy	22
5. Institution Building	24
5.1. Institution Building of the National Level	24
5.2. Institution Building on the Regional/Local Level	25
5.3. Serbian Association of Business Incubators	26
5.4. Cooperation with Universities and Research Establishments	26
6. Government and Donor Harmonisation	27
7. Business Incubation	29
7.1. Business Incubator Establishment and Development	29
7.2. Legal Framework for Establishing and Running the Business Incubator	30
7.3. Training of Entrepreneurs and SMEs	31
7.4. Industrial and Science Parks	31
8. Business and Innovation Networking	33
8.1. Business 2 Business	33
8.2. Business Clusters	34
8.3. Innovation Relay Centre	35
9. Expected Results, Monitoring and Evaluation	37
10. Implementation and Investment	41
10.1. Implementation Structure of the Programme	41
10.2. Investment – Estimation	43
10.3. Project Proposals – Summary	45
10.4. Background Analysis, Tools and Reports -Summary	45
11. References	48
12. List of Acronyms	49

1. Methodology

The Programme methodology is based on the principle of the “value chain”, which implies the following principles:

- It starts with the described existing situation, objectives and strategies of the Government of Serbia. The current status of the SME and entrepreneurial sector is presented through research of economic potentials of certain regions in Serbia¹;
- Then Programme elements necessary to achieving objectives are presented. Elements are logically sequenced, based on the criteria that one component will naturally supersede and add value to the previous, as the basis for the following component. As we progress along the chain, we gradually achieve defined goals;
- Programme results are clearly defined at the “end” of the value chain;

Figure. Programme Value Chain Model



The Programme components, current situation, Government’s objectives and strategies constitute the Programme base:

- **The current situation** of the SMEE sector is the basis and starting point of the Programme;
- The Programme implementation supports realisation of the defined **goals of the Government of Serbia** in the SMEE sector through practical activities and concrete implementation of projects;
- **The GoS strategies**, based on description of the existing situation and future objectives for the SME and entrepreneurial sector are adopted and present in the Programme’s framework. The Programme is designed purely for one reason - to back up and implement goals defined by the Government of Serbia.

Components of institution building, Government and donor harmonisation, business incubation and business and innovation networking are bearers of the Programme activities:

- International experience has showed that the successful development of entrepreneurs and the SME sector calls for strong and efficient support from the relevant public institutions. This support may be within legislation, infrastructure development, funding or concrete projects. Proactive measures of economic policy for the SME and entrepreneurial sector will be more efficient if the institutions for their implementation are strengthened. Therefore, this Programme focuses on the **institution building**;
- Having strong SME institutions is not sufficient in itself. Stakeholders, such as public institutions, private

¹ A principle is adopted in the Programme design that certain regions should be viewed economically on the basis of the current administrative role of division into administrative districts.

companies, donors and other participants in the sector should cooperate within areas of importance and, if possible, agree on joint funding mechanisms to support infrastructure for SMEE sector development. In order to support both the institution building and implementation of planned actions within the Programme, the component of **Government and donor harmonisation** has been given high priority;

- Building institutions and Government and donor harmonisation are preconditions for the next phase, namely the **business incubation process**. International and national experience has showed necessity for the establishment of a network of business incubators, parks, training programmes and adequate practical tools and support mechanisms for SMEE development. This Programme subcomponent is based upon the experiences from the Pilot Business Incubator in Niš;
- The entrepreneurs and SMEs established through a network of business incubators should be competitive in order to secure sustainability and successful growth. This will be provided through establishing regional, national and international **business and innovation networks**. These networks will be aimed at information, competence and technology transfer. Clusters, as well as the Innovation Relay Centre (IRC), have demonstrated their value in a wide range of other European countries;

Furthermore, the Programme defines goals and the system for monitoring and evaluation:

- By the end of the Programme implementation period, the following results are planned: strengthened public-private partnership; a minimum of 15 established and operational business incubators; a minimum of one park established; an established Serbian Association of Business Incubators; an established Innovation Relay Centre; a minimum of 10 operative clusters established and business activities increased;
- In the next component of the value chain, the organisational structure and needed **investments** for the Programme **implementation** are described. In addition, the summary of background research documents is presented. The full version of these documents is an integral part of the document “Attached Documents - Analysis, Instructions and Reports”;
- The last Programme component is **monitoring and evaluation**.

The Programme reflects the needs and is defined in accordance with the existing capacities and possibilities. The further development depends on the stakeholders’ ability to demonstrate practical progress of their initiative.

2. The Current Situation

This chapter gives a brief overview of the SMEE sector, ENTRANSE project activities for the period 2004-2006 and summarised presentation of the regional economic analysis in Serbia in September 2006, including overview of initiatives for establishment as well as already operational incubators and clusters.

2.1. General Context - SMEE Sector

The Report of the Ministry of Economy on Small and Medium Enterprises and Entrepreneurship in 2005 shows a positive trend of the SMEE sector development. In 2005 a total of 276,695 enterprises were registered, i.e. 72,284 small, 2,452 medium and 201,959 businesses. The SMEE sector employs more than 1,100,000 people, which represents about 55% of the overall employment (7.7% more than in 2004), realises 60% of the overall income and comprises almost 55% of the GNI. Only within a year, employment in the SMEE sector grew by about 60,000. It is the most lucrative economic sector, with the profitability rate of 50%. About 70% of the sector's profit was realised in trade and manufacturing industry.

New, simpler, faster and more efficient procedures of enterprise establishment made possible the establishment of about 10,000 new enterprises in 2005 and it is estimated that by the end of 2006 there will be 12,000 new enterprises registered. Registration can be performed within two days. Serbia has adopted the Law on e-signature allowing online registration, which is another step towards reforms.

The Company Law provided better conditions for company establishment because the initial founding capital is reduced in comparison with the solutions of earlier laws (Report on the Implementation of the European Charter for Small Enterprises, 2006, p. 13-18).

Disregarding improvements tied to the legal framework of the enterprise functioning, there are still problems within the SMEE sector, such as financing, outdated technology, barriers for export, etc.

Experience of last year's intensive work in the field with SME and business owners and managers reveals that more and more individuals are interested in starting private business. Analyses coming from the Republic Agency for Employment show that almost 1/3 of the unemployed (the registered ones) are willing to start private business (Survey 2006, p.1).

Institutional infrastructure for support to the SMEE sector is in place. The priority of the Ministry of Economy and other Republic institutions is elimination of barriers and creation of a favourable development for SMEE sector development, among other things, through:

- Improvement of the legislative framework for SMEs and their activities;
- Institutional support for the SME sector through non-financial services;
- Financial support.

Furthermore, the Serbian Agency for SMEE was established with the mission to support development and interests of the SMEE sector. The network of SME agencies is comprised of the Serbian Agency for SMEE, 13 regional agencies/centres and 13 branch offices and it covers 80% territory of Serbia.

2.2. Regional Economic Analysis of the Republic of Serbia

Before the Programme preparation started, a regional economic analysis of Serbia was conducted. This "bottom up approach" reflects the needs and possibilities of all districts in Serbia and provides a base for the formulation of the Programme.

The objectives have been to collect and analyse entrepreneurial and economic data from each of Serbia's 25 administrative districts. Reliable data on national income, unemployment rate, number of SMEs and other major economic and SME development indicators for each municipality in Serbia have been gathered. An additional objective was to demonstrate comparative economic advantages of every district and to narrow the number of industry branches in which the local SMEs would have a competitive advantage.

In addition to this, the analysis contains data on the number of persons with university education, a list of active universities and research institutes, major companies, major industry branches and their share in the district's income, leading enterprises and their activities, institutions that actively support SME development, regional economy risks, assessment of logistics and infrastructure.

The research also indicates the existing and/or potential business incubator and technology/scientific park initiatives in every municipality in Serbia.

By analysing the available economic data in each district, the branches with comparative advantages have been pointed out. It is recommended that the institutions supporting development of SMEs and entrepreneurship take these conclusions into consideration and align their efforts to supporting industry branches in which competitive SMEs can be created. The table below summarises some of the most important economic indexes of the administrative districts in Serbia.

The level of economic development in Serbia is not uniform. For example, the national income of the City of Belgrade amounts to almost 39% of the gross national income in Serbia. The second most developed district is Južno bački District and it creates 19% of the gross national income. (The third is Južnobanatski District with 3.34% of the gross national income). The two mentioned districts and the City of Belgrade generate 60% of the Serbian gross national income.

Bearing in mind the above-mentioned, the Programme will support even regional SME development, with a special focus on the less developed districts.

Table. Regional Economic Analysis of the Republic of Serbia-Summary

District	Municipalities	Population (2002)	GNP Per Capita (DIN.) (2003)	Share of higher educated labour force (%)	No of SMEs (2005)	Leading industries and businesses (2005)	Unemploy. rate (%) (2005)
Belgrade City	Barajevo, Voždovac, Vračar, Grocka, Zvezdara, Zemun, Lazarevac, Mladenovac, Novi Beograd, Obrenovac, Palilula, Raškovača, Savski Venac, Šopot, Stari Grad, Cukarica	1576124	108782	20.31	79491	27 % Trade 26 % Processing ind. 20 % Traffic-commun. 7% Construction 20% Other	21.40
Borski district	Bor, Kladovo, Majdanpek, Negotin	146551	36182	7.14	3417	48.3 % Trade 13.3 % Mining ind. 10.8 % Financial serv. 7.5% Agriculture-fish 20% Other	31.28
Braničevski district	Veliko Gradište, Golubac, Žabari, Žagubica, Kučevo, Malo Crniće, Petrovac, Požarevac	200503	66397	4.35	7258	28 % Agriculture 23 % Industry 17 % Trade 11 % Transportation 9 % Construction 12 % Other	19.82
Jablanički district	Bojnik, Vlasotince, Lebane, Leskovac, Medveđa, Crna Trava	240923	43370	6.39	8400	36.66 % Industry 35.30 % Agriculture 12.47 % Trade 15.58 % Other	43.15
Južno bački district	Bač, Bačka Palanka, Bački Petrovac, Beočin, Bečej, Vrbas, Zabalj, Novi Sad, Srbobran, Sremski Karlovci, Temerin, Titel	593666	98060	13.41	31871	68.21 % Industry 15.25 % Agriculture 9.35 % Trade 7.19 % Other	31.12

Južno banatski district	Alibunar, Bela Crkva, Vršac, Kovačica, Kovin, Opovo, Pančevo, Plandište	313937	98607	7.03	13969	55.6 % Industry 25.6 % Agriculture 18.7 % Services	37.58
Kolubarski district	Valjevo, Lajkovac, Ljig, Mionica, Osečina, Ub	192204	60876	5.33	10286	Industry, Agriculture Trade	28.19
Mačvanski district	Šabac, Loznica, Koceljeva, Bogatić, Vladimirci, Krupanj, Ljubovija, Mali Zvornik	329625	55667	5.54	11698	Industry, Agriculture Trade	46.82
Moravički district	Gornji Milanovac, Ivanjica, Lučani, Čačak	224772	72976	7.47	9829	Metal-processing Paper production Chemical industry Agriculture	36.25
Niški district	Niš, Niška Banja, Aleksinac, Gadžin Han, Doljevac, Merošina, Ražanj, Svrlijig	381757	72213	12.60	15342	30.9 % Trade 29.2 % Industry 41.4% Tobacco proc. 18% Electr. machines 10.7% Textile product 39.9% Other	35.51
Pčinjski district	Bosilegrad, Bujanovac, Vladičin Han, Vranje, Preševo, Surdulica, Trgovište	227690	50587	7.27	6806	57.25 % Industry 19.83 % Agriculture 14.41 % Trade 8.51 % Other	39.23
Pirotski district	Babušnica, Bela Palanka, Dimitrovgrad, Piro	105654	56791	7.79	2588	Rubber, Textile and Paints industry	29.51
Podunavski district	Velika Plana, Smederevo, Smederevska Palanka	210290	50 812	6.44	7489	35.3 % Industry 24.4 % Agriculture 11.1 % Trade 4.2 % Construction 25 % Other	31.07
Pomoravski district	Despotovac, Jagodina, Paraćin, Rekovac, Svilajnac, Cuprija	227435	65712	6.97	9218	Meat production, cables, electric installations equipment	30.07
Rasinski district	Aleksandrovac, Brus, Varvarin, Kruševac, Trstenik, Čičevac	259441	59 816	7.20	9280	Industry (alcoholic drinks, wines and juices industry, chemistry), Construction Trade, Other	36.99
Raški district	Vrnjačka Banja, Kraljevo, Novi Pazar, Raška, Tutin	293311	40 613	8.37	13308	Industry, Trade Tourism	39.72
Severno bački district	Bačka Topola, Mali Idoš, Subotica	202493	88 680	8.03	7519	60.5 % Agriculture 27.8 % Industry (food production mainly) 20% Other	35.49
Severno banatski district	Ada, Kanjiža, Kikinda, Novi Kneževac, Senta, Čoka	165881	88991	6.35	4531	55.6 % Industry (food processing and production, building and construction.) 25.6 % Agriculture 18.7 % Services	34.78
Srednje banatski district	Žitište, Zrenjanin, Nova Crnja, Novi Bečej, Sečanj	208456	78546	7.80	5907	55.6 % Industry (food processing and production, building and construction.) 25.6 % Agriculture 18.7 % Services	39.23
Sremski district	Indija, Irig, Pečinci, Ruma, Sremska Mitrovica, Stara Pazova, Sid	335901	63894	6.58	13777	41.3% Agriculture 24.1% Industry & mining 12.4% Trade 6.0% Architecture 5.4% Transportation and communications 11.2% Other	43.35
Šumadijski district	Aranđelovac, Batočina, Knić, Kragujevac-grad, Lapovo, Rača, Topola	298778	51 482	8.86	11284	26.1% Non-metal industry 18.79% Food industry 13.26% Metal industry	29.61
Toplički district	Blace, Žitorađa, Kuršumlija, Prokuplje	102075	46 685	6.11	3371	Metal processing Food processing Textile industry	38.13
Zaječarski district	Boljevac, Zaječar, Knjaževac, Sokobanja	137561	52902	6.88	3774	Industry (metal, non-ferrous, textile and leather) Mining & related industry Agriculture	33.32
Zapadno bački district	Apatin, Kula, Odžaci, Sombor	214011	107015	7.70	8550	48.21 % Industry (food production mainly) 20.44 % Agriculture 13.19 % Trade 18.16 % Other	41.21
Zlatiborski district	Arilje, Bajina Bašta, Kosjerić, Nova Varoš, Požega, Priboj, Prijepolje, Sjenica, Užice, Cajetina	313396	52 168	6.74	13908	Metal industry Processing of non-ferrous metals, Textile industry Wood industry	39.16

2.2.1. Overview of Business Incubator and Park Initiatives

When the ENTRANSE Project, supported by the Norwegian Government, started with implementation in 2004, there were no registered business incubators in Serbia. The Project supported establishment and development of the pilot Business Incubator in Niš (BIC Niš) and prepared the Training Concept for Pre-incubation, Incubation and Post-incubation. (See Chapter 7.3.) Through Project activities, the SMEs infrastructure on the national (establishment of Business Incubator Support Centre within the Serbian Agency for SMEE), as well as on the local level was also strengthened (implementing activities through the network of regional SME agencies).

One of the Project results was raising the level of awareness on the importance of business incubators as the SME support instrument. The Law on Innovation Activity was adopted in December 2005. In addition, business incubator financing from the National Budget, through the National Investment Plan was approved.

In the period November 2005 – March 2006, the campaign "ENTRANSE on Tour" was conducted. In total, 19 municipalities in Serbia were visited. On every visit, the concept of business incubators, their potential contribution to regional SME development and the best practice generated from the Pilot Business Incubator in Niš were presented. One of the goals was to motivate municipalities to apply a proactive approach in establishing business incubators as part of the needed infrastructure that stimulates SMEE development on the local level.

Until November 2006 four business incubators have been registered and opened – Business Incubator Centre in Niš, Business Incubator Centre in Knjaževac (registered as a project), Business Incubator in Bor and Business Incubator in Zrenjanin.

Additionally, there are 23 more initiatives for establishing business incubators, most of which were initiated by various municipalities. Incubators in Rakovica, Palilula and Prokuplje are formally registered as Limited Liability Companies, but there are still no preconditions necessary for the incubation process. The incubator in Subotica is still in the registration phase. As far as other initiatives are concerned, there are letters of interest, decisions made by the respective municipalities, or contracts on establishment signed in a certain place, but they still haven't been registered, i.e. Novi Sad, Vranje, Kruševac and Valjevo. There are also 2 initiatives for establishing scientific/technology parks, one in Novi Sad and one in Belgrade. (See Chapters 7.1. and 7.4.)

During the summer of 2006, the Ministry of Economy and the Serbian Agency for SMEE conducted the activity of collecting initiatives for business incubator establishment that could be supported from the National Investment Plan (NIP). The total amount of 3 million EUR for establishing business incubators in 14 locations has been approved through the NIP for the period 2006-2007. These resources are intended for adaptation of the existing production halls and similar objects out of function, into business premises intended for SMEs, as well as building new objects. These 14, including other initiatives, are an integral part of the Programme. Their further financing will be secured from the later phases of the NIP or other resources.

The figure that follows shows geographic distribution of various business incubators and science/technology parks in various Serbian districts and the existing business incubators. The lists of all municipalities that launched an initiative for business incubator establishment, which will be supported by the NIP, as well as the other business incubator and science/technology parks initiatives in Serbia are summarised in the table below.

Figure. Business Incubators & Parks Initiatives

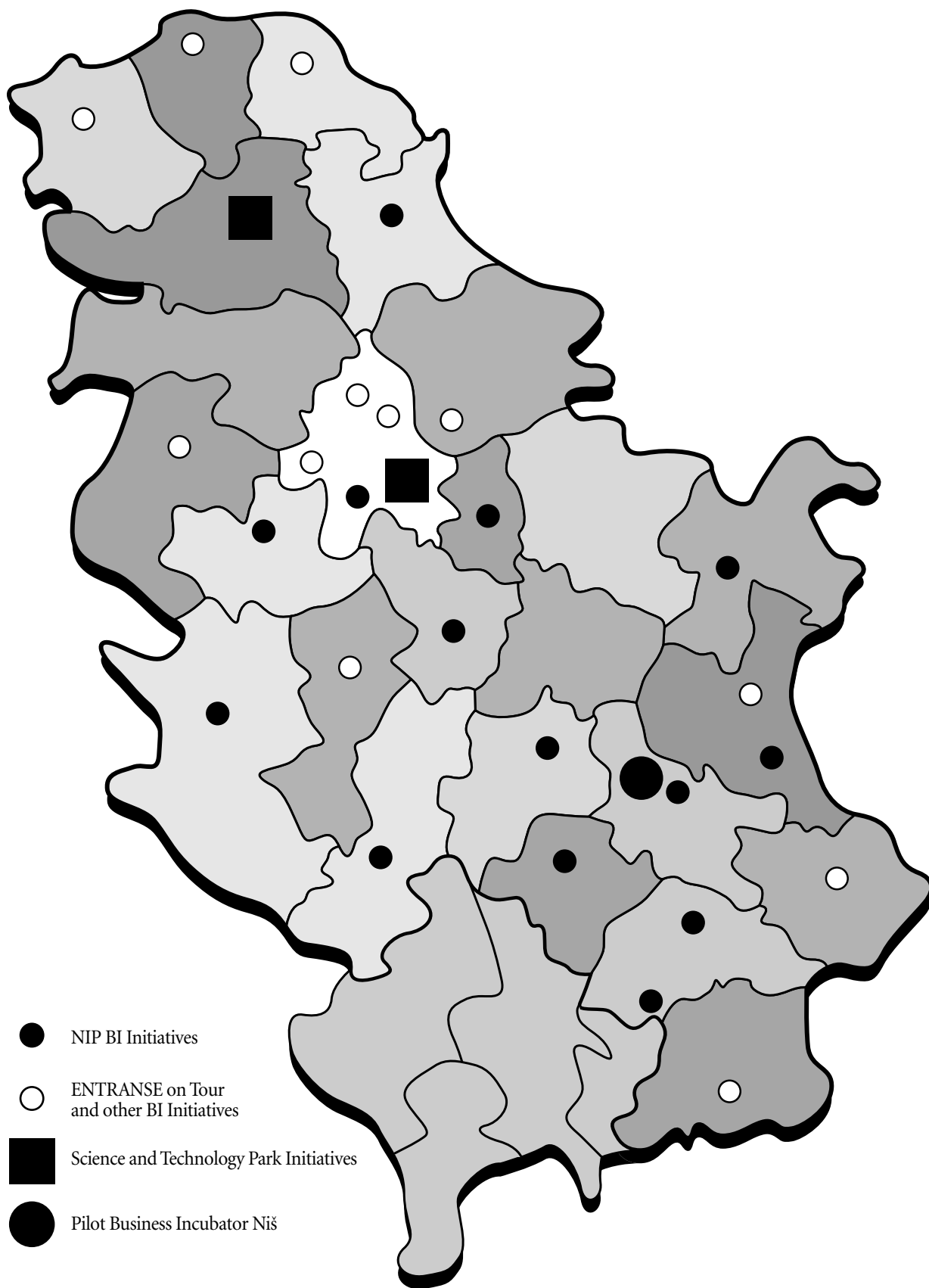


Table. Overview of Initiatives for Business Incubators, Science and Technology Parks

District	Municipality	BI - NIP	BI - Other initiative	Science or Technology Park	Description
Zapadno bački	Sombor		ENTRANSE on Tour		Regional SME Centre in Sombor with Sombor Municipality filed the initiative for creating an industrial business incubator in Sombor
Severno bački	Subotica		ENTRANSE on Tour, VIP		<ul style="list-style-type: none"> • Feasibility study for the business incubator • Business plan for the business incubator • Providing premises for use by the business incubator • Application to the NIP submitted
Severno banatski	Kanjža		Initiative to ENTRANSE		Initiative by the city of Kanjža
	Kikinda		Initiative to OSCE		Kikinda Municipality developed the feasibility study in cooperation with OSCE for establishing a business incubator
Južno bački	Novi Sad			ENTRANSE on Tour, VIP	<ul style="list-style-type: none"> • Executive Council of the AP of Vojvodina allocated financial resources in 2006 for the establishment of 3 incubators in Novi Sad, Subotica and Zrenjanin • Total budget for the four year period is 1,310,195 EUR and the Executive Council of Vojvodina should provide at least 25% of the total budget • Development of the business incubator in Novi Sad will be the first project component of the Science and Technology Park in Novi Sad
Srednje banatski	Zrenjanin	Yes			Municipality of Zrenjanin, VIP Fund and Technical Faculty Zrenjanin formed the business incubator company. Municipality of Zrenjanin provided premises and operational funds. The business incubator will focus on information technology. The stakeholders and the incubator management are fully cooperating with the Business Incubator Support Centre. Resources from the NIP are approved
Sremski					No business incubator initiatives
City of Belgrade	Rakovica	Yes			Municipality of Rakovica defined the business incubator initiative within the state owned IMR company that is being restructured. The application towards the NIP is submitted and resources are approved
	Palilula	N/A	Municipality initiative		
	Lazarevac		ENTRANSE on Tour		Municipality of Lazarevac launched the "agricultural business incubator"
	Novi Beograd		Initiative to MEGA		Municipality of New Belgrade has launched initiative for forming a business incubator
	Grocka			Radmilovac Park	Ministry of Science has launched an initiative to create the science park.
Južno banatski	Pančevo		Petrohemija's initiative to the World Bank		World Bank supported the initiative to create an incubator within state-owned Petrohemija company in order to support the process of restructuring. The incubator would serve its outsourcing needs.
Mačvanski					No business incubator initiatives
Kolubarski	Valjevo	Yes			Municipality of Valjevo and Regional Chamber of Commerce undertook a proactive approach to identify possible premises for an incubator company. Resources from the NIP are approved.
Podunavski	Smed. Palanka	Yes			Initiative is supported by the NIP
Braničevski					No business incubator initiatives
Borski	Bor	Yes			Business incubator has been established in Bor municipality under EAR project. The NIP approved resources for reconstruction of the premises

Zlatiborski	Užice	Yes		<ul style="list-style-type: none"> • Providing premises for business incubator usage • Local government will participate in purchasing the premises • USAID- CRDA will contribute for reconstruction of premises for the BI • Application to the NIP
Moravički	Čačak		Initiative to ENTRANSE	Municipality of Čačak submitted an initiative for creating a business incubator, based on the feasibility study developed in cooperation with OSCE
Šumadijski	Kragujevac	Yes		Premises for business incubator usage are available. Application to the NIP for reconstruction of premises is approved.
Pomoravski				No business incubator initiatives
Zaječarski	Zaječar	Yes		Municipality of Zaječar filed the initiative for business incubator in Zaječar to the National Investment Plan. Resources approved.
	Knjaževac		Already operating incubator	Business incubator in Knjaževac was opened in 2005
Raški	Novi Pazar	Yes		Novi Pazar Municipality submitted initiative to the NIP
Rasinski	Kruševac	Yes		Kruševac Municipality undertook initiative towards creating a business incubator in Kruševac. Resources approved from the National Investment Plan.
Nišavski	Niš		Programme – Pilot BIC Niš	Pilot Business Incubator in Niš registered and opened in 2005. Incubator supported by the Norwegian government (ENTRANSE Project). Initiative for expanding and upgrading the existing business incubator submitted to NIP.
Toplički	Prokuplje	Yes		Secured premises for business incubator usage. Application to NIP for reconstruction of premises submitted.
Jablanički	Medveđa	Yes		Initiative submitted and approved financing from NIP
	Leskovac	Yes		Municipality of Leskovac undertook initiative towards creating a business incubator in Leskovac. Financing from the National Investment Plan approved.
Pirotski	Pirot		Initiative to ENTRANSE	Free Zone Pirot submitted an initiative for creating the free zone area in close cooperation with the “Tigar” company.
Pčinjski	Vranje	N/A	Initiative to OSCE and ENTRANSE	Yumco company (state-owned) initiated development of a business incubator company in Vranje in cooperation with OSCE. Financing from NIP approved.

2.2.2. Overview of Clusters Initiatives

Through its Department for Competitiveness and Cooperation with International Institutions, the Ministry of Economy supported establishment of the following clusters through the pilot project financed from the National Budget of the Republic of Serbia in 2005:

- **Automotive cluster (15 members: 11 companies + 4 R&D organisations).** Companies are located in Bečej, Novi Sad, Belgrade, Kragujevac and Surdulica. This cluster offers training service for its members and works on introduction of business standards. Cooperation with automotive clusters in Slovenia and Bosnia & Herzegovina has been established;
- **Rubber and plastic cluster (15 Members: 11 companies + 4 R&D organisations).** Companies are mainly located in Vojvodina. This cluster is working on waste management and development of special software tools, which will be available to all members. Cooperation with a similar cluster in Hungary has been established;
- **Wood processing (66 members, 63 companies + 3 R&D organisations).** Companies are located in central and west Serbia. This cluster develops joint market activities, establishing a design award among students and apprentices in specialised vocational schools, etc.;
- **Small agricultural machinery cluster (14 Members: 11 companies + 3 R&D organisations).** This cluster develops joint market support aimed at export into Russia.

All four clusters have their own permanent offices, established organisation and Cluster Advisory Board. Cluster offices are in Belgrade, except for the rubber and plastic cluster, which established an office in Subotica. The Project Proposal “Cluster Development Support Project in 2007” is integral part of the Programme and is presented in the “Project Proposals” document.

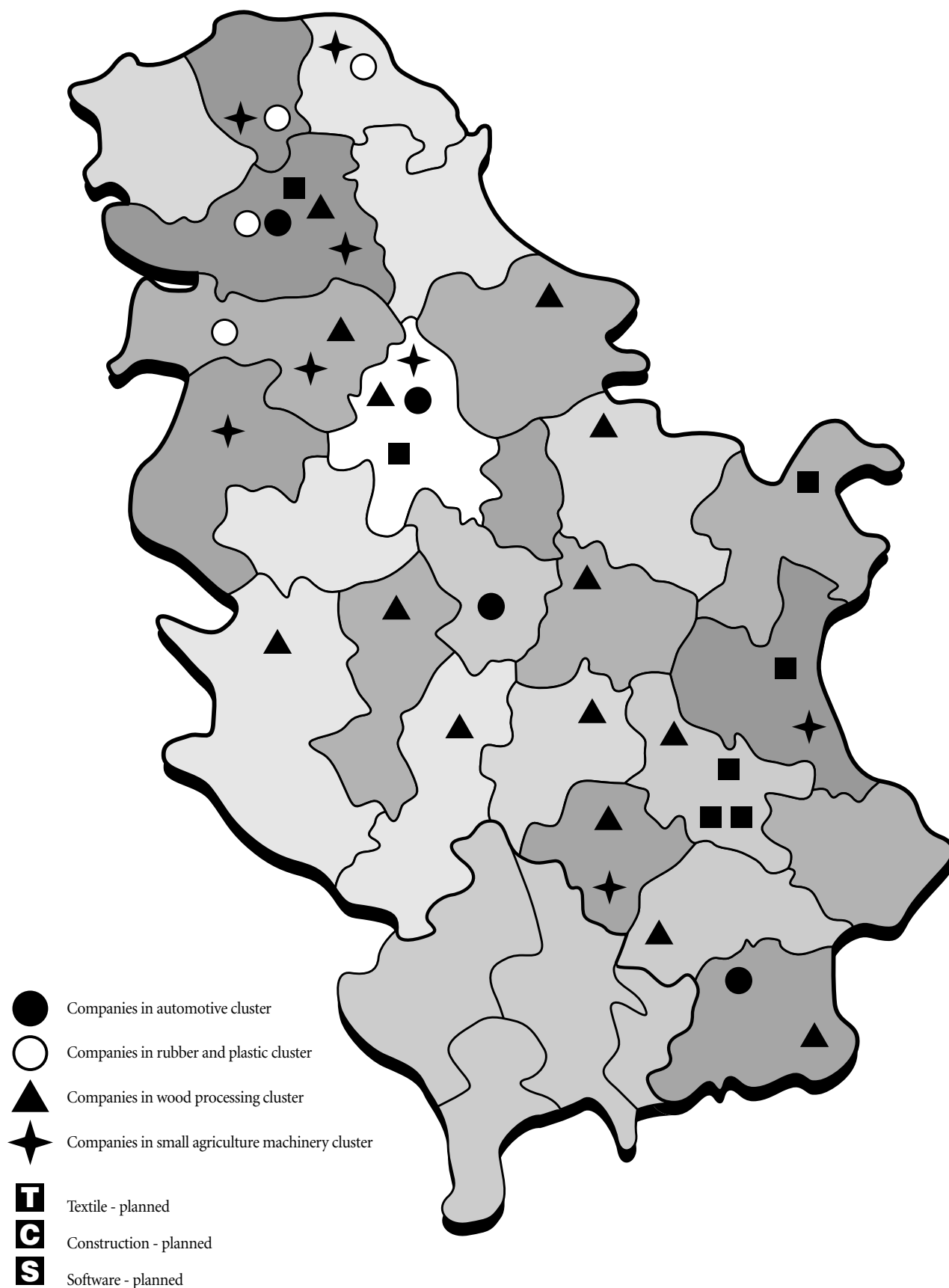
Furthermore, there are initiatives for establishing textile clusters in Bor, Niš and the Zaječar district, a software cluster in Belgrade (companies from Belgrade, Novi Sad and Niš) and a construction cluster in Niš.

The following figure shows geographic distribution of companies involved (and those to be involved) in specific clusters and the table presents municipalities where the registered companies are included in cluster initiatives.

Table. Companies that will be included in Cluster Initiatives

District	Municipality	Established Clusters in Serbia
Zapadno bački		
Severno bački	Subotica	Rubber and plastic, Small agriculture machinery
	Hajdukovo	Rubber and plastic
	Stara Moravica	Rubber and plastic
Severno banatski	Kanjiža	Rubber and plastic
	Odžaci	Small agricultural machinery
	Ada	Small agricultural machinery
Južno bački	Novi Sad	Automotive, Wood processing, Software (initiative), Rubber and plastic, Small agricultural machinery
	Bačka Palanka	Wood processing, Small agricultural machinery
	Srem. Kamenica	Wood processing
	Bečej	Automotive
Srednje banatski		
Sremski	Srem. Mitrovica	Wood processing, Rubber and plastic
	Irig	Rubber and plastic
	Ruma	Rubber and plastic
	Stara Pazova	Small agricultural machinery
City of Belgrade	Belgrade	Automotive, Wood processing, Software (initiative), Small agricultural machinery
Južno banatski	Pančevo	Wood processing
Mačvanski	Loznica	Small agricultural machinery
Kolubarski	Čačak	Wood processing
Podunavski		
Braničevski	Požarevac	Wood processing
Borski	Bor	Textile (initiative)
Zlatiborski	Užice	Wood processing
	Požega	Wood processing
Moravički	Čačak	Wood processing
	Ivanjica	Wood processing
Šumadijski	Kragujevac	Automotive
Pomoravski	Jagodina	Wood processing
Zaječarski	Zaječar	Textile (initiative)
	Boljevac	Small agricultural machinery
	Knjaževac	Small agricultural machinery
Raški	Vrnjačka Banja	Wood processing
Rasinski		
Nišavski	Niš	Wood processing, Textile (LEDIB initiative), Construction (LEDIB initiative), Software (initiative)
Toplički	Prokuplje	Wood processing, Small agricultural machinery
Jablanički	Leskovac	Wood processing
Pirotski		
Pčinjski	Surdulica	Automotive
	Vladičin Han	Wood processing

Figure. Regional Disposition of Companies in Existing & Planned Cluster Initiatives



3. The Serbian Government Objectives

The Republic of Serbia is committed to application of the “European Charter for Small Enterprises”, which implies policy-making in the SMEE sector, based on the following principles:

- Education and training for entrepreneurship;
- Cheaper and faster start-up;
- Better legislation and regulations;
- Availability of skills;
- Improving online access;
- Improving business of small enterprises in domestic and foreign markets;
- Taxation and financial matters;
- Strengthening the technological capacity of small enterprises;
- Successful e-business models and small business support;
- Development of stronger, more effective representation of small enterprises’ interests at the international and national level.

The Programme contributes to accomplishing objectives defined in the Charter with a special emphasis on Principle 9, i.e. development of specific instruments and mechanisms for the SMEE support, such as business incubators and clusters.

The Government of Serbia has set ambitious goals directed towards attainment of sustainable, internationally competitive and export-oriented SMEE sector, creation of the favourable environment for the formation of new economic entities and growth and development of the existing ones, strengthening the SMEE sector competitiveness through production increase, business incubation, cluster development, supporting export and innovations.

The Ministry of Economy and Serbian Agency for SMEE are responsible for the SMEE Development policy-making and implementation respectively.

4. The Serbian Government Strategy

In order to achieve the above-mentioned objective, the GoS adopted the Strategies described further in the text:

1) The future accession to the EU has been a clearly proclaimed intention of both the EU and all Western Balkan countries since the Thessalonica Summit of June 2003. At the occasion of this Summit, all Western Balkan countries signed the “European Charter for Small Enterprises”. In 2005, the GoS adopted the “Serbian National Strategy for the Accession of Serbia and Montenegro” building on the priorities provided in the European Partnership: political situation, economic situation and EU standards including alignment with *acquis communautaire*. The Strategy, among other issues, defines development of a functional market economy and competitiveness on the national and international markets. In addition, it emphasises the need to adopt a mechanism for institutional support to SMEs and entrepreneurship development. As defined by the “Council Decision of January 30th, 2006”, Serbia needs to:

- Continue implementing the European Charter for Small Enterprises
- Further develop local/regional business support structures (clusters, incubators, business/technology parks (p. 40, Council Decision);
- Strengthen capacity (policy-making and inter-ministerial coordination) of the public administration at government and local levels [...] Strengthen the economic policy-making process (p. 43, Council Decision).

2) The Poverty Reduction Strategy (PRS), adopted in 2003, shows that the level of poverty in Serbia is 11%. This strategy prioritises creation of a favourable environment for private sector development and points out the role of the SMEE sector in the creation of new jobs as an element of fighting poverty. Removing obstacles to SMEE development is defined as a priority.

3) The GoS adopted the “National Strategy for the Economic Development of Serbia, 2006-2012” in November 2006, and this Programme relies on the economic analyses and recommendations presented in the document.

4) “The Strategy for Development of Small and Medium Enterprises and Entrepreneurship 2003-2008” (Strategy for SMEE) defines the following guidelines:

- Increasing level of the standard of living and decreasing the gap between incomes in Serbia and the EU member states;
- Significant employment increase;
- Stronger and more stabilised regional growth;
- Strengthening international trade, especially with the EU member states;
- Increasing available resources for other sectors, such as education, health care and pension funds.

5) The Programme is in line with the “The Plan of the Government of the Republic of Serbia for Stimulating Small and Medium-sized Enterprise and Entrepreneurship Development 2005-2007”, which defines necessary steps to improve the favourable SMEE environment that relates to:

- Creation of an institutional and legal environment that will support entrepreneurs’ interests
- Raising the level of knowledge and skills within the entrepreneurship sector in order to support new educational profiles with larger mobility and flexibility in overcoming different requirements of the labour force market;
- Building institutions for non-financial support to the SMEE sector, as well as development of non-financial services through providing information, consultancy services, mentoring and training in different business areas;
- Financing and financial measures to support the SMEE;

-
- Innovations and modern technology application to support the SMEE;
 - Donors and development assistance.

6) The Programme's goal is creating new jobs, which is in accordance with the adopted "National Employment Strategy 2005-2010".

7) The GoS has adopted a strategy for making public administration more modern and efficient. Institution building supports capacities of the Department for SME within the Ministry of Economy and Serbian Agency for SMEE, and building a stronger infrastructure for SMEE support on the national level.

8) The Programme takes into consideration the guidelines presented in the document "National Innovation Strategy", which is currently under preparation.

9) The Executive Council of the Autonomous Province of Vojvodina (EC of AP Vojvodina) adopted in 2003 the preparation of the "Integrated Regional Development Plan" of AP Vojvodina (IRDP). The IRDP represents a multi-sectoral action plan aiming to support the socio-economic development process of the AP Vojvodina under which significant segments of the socio-economic development process are encouraged by different integrated measures. One of 14 IRDP projects is the "Joint Fund for Building Business Incubators in Vojvodina" which defines the following objectives:

- "Support to the SME development process by building and maintaining business incubators in Novi Sad, Subotica and Zrenjanin (Vojvodina);
- Development of the entrepreneurial spirit through a business ideas competition throughout Vojvodina;
- Introduction of basic business 'know-how' to the new entrepreneurs by training and consultancy."

10) The Programme is based on the "Joint Project of Institution Building of Ministry of International Economic Relations" (Joint Project), funded by the British and Swedish governments. Through strengthening capacities of the Ministry of Economy and Serbian Agency for SMEE, the Programme will strengthen sectorial institutional capacities of the "Joint Project": increase management and operational capacities for the purpose of facilitating development and coordinating administrative sector structures with the aim of planning and managing external funds in the line ministries."

In order to implement the above-mentioned principles, it is necessary to strengthen institutions on the national and local levels.

5. Institution Building

The Programme included a complex process of institutionalised development on the national and local levels in order to secure development of the SMEE sector through the development of incubators, clusters and other instruments. For successful application of the Programme it is necessary to have commitment and involvement of all stakeholders, such as the Republic and regional institutions, international community and others. The newly established Business Incubator Support Centre, described below will be highlighted in this context.

In the value chain, the Programme component Institution Building consists of the following sub-components:

- Institution building on the national level;
- Institution building on the regional/local level;
- Serbian Association of Business Incubators;
- Cooperation with universities and research institutions.

The Projects of Institution Building on the National Level and Serbian Association of Business Incubators are presented in the “Project Proposals” document.

5.1. Institution Building on the National Level

Building the Government capacity to lead the process of sector development, especially in relation to strategic planning, resources allocation, financial and impact analysis is a priority. Limited financial resources to support SME and entrepreneurial infrastructure on the national level are one of the main constraints affecting the Programme implementation.

It is clearly envisaged that the need for the strong government capacities will increase, bearing in mind the forthcoming demands from the technical and legislative requirements for the future EU membership. The current EU programming (CARDS) will be replaced by a pre-accession instrument focusing on institutional change and regional development (IPA). Furthermore, possible technical support from the EU project “Twining”, would require strong institutional capacities.

The Programme component provides support for work reorganisation, hiring additional staff, skills development and supply of equipment. The Project envisaged at least 4 to 5 additional positions with the specific terms of references to be seconded to the Ministry and the Agency respectively. Special emphasis will be on the Business Incubator Support Centre (Support Centre).

The Programme implementation has a goal of strengthening horizontal cooperation between the Ministry of Economy, Serbian Agency for SMEE, as well as other ministries and Government institutions. Furthermore, the Programme will support vertical cooperation between the SME institutions on the national and local levels for the purpose of a more inclusive SMEE support. In this respect, the role of regional institutions is defined in Chapter 5.2, as well as responsibilities of the national institution which, among other things, include:

- Providing strategic support for project development and implementation;
- Coordination of donor assistance;
- Defining concept and standards necessary for establishing and developing business incubators, clusters and parks.

Business Incubator Support Centre

During 2006, the Business Incubator Support Centre was established within the Serbian Agency for SMEE which

has the main focus on business incubation. There is a need for the Centre to be further strengthened in order to carry out implementation of the following activities:

- Cooperation with the local business environment of the districts in Serbia;
- Establishment of business incubators and parks;
- Training programme development and implementation through all phases of the business incubation;
- Innovation centre and technology transfer.

5.2. Institution Building on the Regional/Local Level

The Programme defines framework for different regional activities and ensures that they are contributing to the common results.

The process of decentralisation and strengthening at the local level is currently in progress. While implementing projects on the local level, it is important to take into consideration the local environment, but one should bear in mind that most municipalities lack long term strategies². Therefore, the Programme will secure that concrete projects (presented in the “Project Proposals” document and implemented at the local level) have the same platform and that they contribute to the same Programme results.

Municipalities and regional agencies for SME development (local level) will through their implementation become the users of the technical and financial assistance. Regional and local institutions will be strengthened through the following activities:

- Providing networking and coordination of all initiatives (including donors) in developing SME and entrepreneurship in defined regions of interest and their connection to Programme, when relevant,
- Performing training activities within the framework of developed Training Programme for Pre-incubation, Incubation, and Post-incubation phases;
- Be involved in a day-to-day monitoring of the process;
- Consulting and informing the national level regarding present and possible new activities and initiatives related to business incubators, parks, clusters and other activities;
- Summarising experiences, lessons learnt and exchanging information.

On the other hand, by developing capacities at the local level, the national level will reduce transaction costs from the “centre”. The flow of information will be strengthened. Experience from cooperation with the City of Niš and other participants in developing the Pilot Incubator, relations developed through the ENTRANSE on Tour campaign with different municipalities, as well as detailed evaluations of received business incubator establishment initiatives are a valuable experience.

Strengthening institutions at the regional or local levels also includes providing human resources, training, reorganisation of the work and equipment supply. Furthermore, the Programme suggests that as a first step, the Memorandum of Understanding between national institution and regional institutions and/or specific municipalities should be signed. As an example the MoU signed between the Serbian Agency for SMEE and the Executive Council of Vojvodina can be considered, which, among other issues, outlines joint cooperation in establishing and developing business incubators, within the framework of the Programme. The similar approach will be applied for each of the municipalities where the incubators and parks will be placed or other projects implemented.

² For example, only a few municipalities have their development strategy in place.

5.3. Serbian Association of Business Incubators

The Programme provides recommendations for establishing the Serbian Association of Business Incubators (SABI), based upon experience of countries which passed through the transition period, like Hungary and Poland, as well as that of the United States, Canada and Great Britain. It is assumed that this institution will grow stronger and develop the network of business incubators within the country and, in the appropriate way, advocate and represent business incubation on the international level. Furthermore, it will be a strong partner to stakeholders both from the public and private sectors.

The Programme provides for establishment of SABI, which would include the existing business incubators, technological centres and science parks (when registered). The initiative should be a “bottom-up” approach and have support of the relevant national institutions. The Ministry of Economy and the Serbian Agency for SMEE will provide technical assistance during the SABI establishment.

The mission of SABI will be to create a network and provide information, training and strategic alliances for its members and stakeholders in order to support the start-ups and enterprise creation within the business incubation programmes throughout Serbia. SABI will work in close cooperation with the Business Incubator Support Centre.

The concept of this association’s development is to be coordinated with the association of innovation systems proposed by the Innovation Strategy. The Project itself is presented in “Project Proposals” document.

5.4. Cooperation with Universities and Research Establishments

It is important to establish cooperation between universities, as educational and research institutions and business incubators as companies, with the aim of setting-up and maintaining long-term partnerships between the educational system and economy. As graduating students and researchers are key resources in commercialising new ideas based on technical and economic skills, university cooperation is invaluable for sustainable regional development. Universities and incubators should also jointly work on the matter of developing possibilities for establishment of technological–science parks.

Business Incubators will be available to all students for acquiring practical experience, such as:

- Identifying business initiatives from universities and developing them further within the incubator and park environment.
- Providing the university students with the possibility of developing practical skills and professional improvement;
- Using resources provided by the business incubator for preparing projects and participating in them;
- Enabling graduated students to voluntarily practice in the incubator;
- Possibility of attending training organised for tenants within the incubator.

Universities should take a proactive approach towards business incubation in:

- Stimulating and enabling research and innovation activities within the incubator;
- Initiate cooperation between the incubator and specific faculties of the university in order to define specific needs of all parties, as well as defining possible projects to be realised;
- Take steps on identifying possible products and business ideas from the university that could apply for incubator tenant status, within the incubator profile ;
- Enabling students to engage in work on projects for the use of incubator and its tenants and help tenants with market research activities;
- Support incubators and their tenants with different forms of consultancies and practical knowledge transfer.

6. Government and Donor Harmonisation

Harmonisation of different projects has become a very complex process, due to the fact that there are several donors providing assistance to the SMEE sector. In some cases, it leads to overlapping of donor activities, competition and creation of parallel institutions.

The Programme component titled Government and Donor Harmonisation assumes strong leadership and a proactive role of the Government of Serbia and the line ministries in a clear definition of priorities. Therefore, the Programme defines frameworks, principles and expected results for different activities and projects within the SME and entrepreneurial sector. Furthermore, it determines two possible models for the joint and harmonised support to the Programme implementation:

- “Joint Model” - applies full harmonisation of project activities, budget, reporting system, implementing team, etc.;
- “Explicit Agreement” between donors - defines specific tasks/projects with clear roles and responsibilities of each donor that would finally lead to execution and fulfilment of the Programme objectives.

When we are talking about the “Joint Model”, there are difficulties in its practical implementation because donors who are active on the territory of the Republic of Serbia have different strategic priorities, different geographical areas of interest, as well as different mechanisms of support. Moreover, certain donor projects and available funding are often in different stages of readiness for implementation.

The “Explicit Agreement” provides better opportunities for cooperation as it, in a way, divides donors in two categories. The first group are the “core” donors who can be directly involved and support implementation of one or more Programme components, sub-components and/or projects. The other group of donors are the so-called “aligned” donors who are actually aligning their projects and strategies with the Programme objectives and in this way “indirectly” contributing to the realisation of defined results.

Bearing in mind the above-mentioned, the “Explicit Agreement” model seems to be the most realistic for the implementation of this Programme because each of the identified donors will cover different components or sub-components, depending on the priority defined in their development strategies.

Donors presented in the “Project Proposals” document have showed great interest in supporting the Programme implementation and contributing to expected results.

The practical realisation of this model of harmonising donor activities implies several steps. The first one would be for development partners to sign the Memorandum of Understanding and Specific Agreements defining specific responsibilities and contributions of involved partners/associates on each component, sub-component or project. The MoU should define the “main donor” who will advocate interests of the formed donor consortium. The “Project Proposals” document presents an example of MoU (framework) to be signed between two donors or implementing agencies.

The second step, after consensus between donors has been reached, is preparation and signing of the general MoU on cooperation between the Government of Serbia, represented by the Minister of Economy and all donors, represented by the Lead Donor. The Ministry of Economy will take a lead in donor coordination and will closely operate this process with Ministry of International Economic Relations and the Serbian Agency for SMEE. For more detailed information on available and possible mechanisms see the “Project Proposals” document.

In this process of harmonisation and further coordination of donor activities, the operational activity will be taken over by the Working Group for International Relations & Infrastructure (WG). It consists of representatives from

line ministries and donors. WG will continue to meet regularly and monitor progress made in the joint donor activities during the Programme implementation. The WG's activities are presented in more details in Chapter 10.1.

As a good example of the harmonised approach between the national institutions and donors in the SME and entrepreneurial sector, this Programme promotes the National Investment Plan, which relates to financing establishment of the business incubators, as well as "Cluster Development Project 2007". Both projects will additionally be supported by the donor contribution, which will secure their development according to the international standards. Good examples are also already demonstrated on the local level, i.e. some of the donors, as a precondition for their support, require initial project financing from the municipality.

7. Business Incubation

Business incubation is based on international experience, best practice examples, as well as the experience acquired during establishment and development of business incubators in Niš, Knjaževac, Bor and Zrenjanin within the period 2004-2006. The process that starts with recruitment of entrepreneurs with the most competitive business idea and their further development to economically sustainable entities is often termed as the incubation process.

The Programme component “Business Incubation” consists of the following sub-components:

- Business incubator establishment and development;
- Legal framework for establishing and running the business incubator;
- Training for entrepreneurs and SMEs;
- Industrial and science parks establishment and development;

Project proposals for the “Incubator Centre Niš - Business Analysis and Action Plan” and “Plan of Activities, Organisation and Implementation of the Training Programme”, developed within the pilot projects in Niš, will serve as the basis for implementation of this component. See “Project Proposals”.

7.1. Business Incubator Establishment and Development

The presence of a business incubator is beneficial for its region as they are seen as generators of regional growth, attractiveness for the investors and new businesses, they produce commercial publicity and development of international trade. They may also create specialised knowledge centres and stimulate production as a source of regional competitive advantage. Incubators are often visible examples of regional success, progress and commitment to entrepreneurship.

Experience of other countries indicates that start-up companies developed in the business incubators operate with a lower failure rate than enterprises established outside of the incubator. The tenants and entrepreneurial environment may offer additional financial support, competence development, access to new concepts and methods, technology transfer and business through networking.

The Law on Innovation Activity (Official Gazette of the Republic of Serbia, no. 110/05), defines the business-technology incubators as: “... a commercial company whose main activity is to provide and rent available office space, administrative, technical and other services to newly started commercial companies or innovation organisations...”. (Article 21). Incubators are defined as organisations providing infrastructure support to the innovation activity.

To make a theoretical wide range of incubator types manageable and practical, the Programme builds upon the definition presented in the Law and operates with two types of incubators:

- High-tech incubators; university and R&D related;
- General type and sector specific incubators.

Based on international best practice and experiences from the Pilot BIC in Niš, full package documentation for the establishment of general purpose incubators has been prepared. It is an integrated part of the Programme and will be used as a model for establishment of other business incubators.

Business incubators enable a business environment for new and young developing businesses by providing premises, infrastructure and a comprehensive range of services and convenience that can improve their ability to run their operation during the early developmental period. The companies remain in the business incubator 2.5 –

3 years in average and pass through the following phases:

- Pre-incubation period for company registration and establishment;
- Period for incubation development and growth inside the incubator;
- Post-incubation period for follow-up and support to companies that left the incubator.

Guidelines and best practices in the design of business incubators can be summarised as follows:

- Recognise the role of business incubators in fostering entrepreneurship and realise their potential role to support regional or industry specific development;
- Obtain consensus on a mission that defines the incubator's role in the community and develop a strategic plan to achieve the programme mission;
- Build an effective Board of Directors committed to the incubator's mission and to maximising management's role in developing successful companies;
- Identify international partners and focus the activity of the business incubator on local entrepreneurs and needs;
- Carefully choose the location and the site and secure that suitable infrastructure and facilities can be provided;
- Recruit efficient management and apply business-like operational practices so that a positive view of entrepreneurship can be fostered, as well as helping to promote a new enterprise culture and networking;
- Make the business incubator operating conditions, services and charges/costs clear and transparent to companies;
- Learn from the extensive international experience with business incubators;
- Structure for financial sustainability by developing and implementing a realistic business plan;
- Client assistance and stakeholder support, and support to the incubator's mission and operations;
- Maintain a management information system and collect statistical data and other information necessary for the ongoing programme evaluation, thus continually improving work efficiency.

In the "Project Proposals" attachment of this Programme, all initiatives for establishing and developing business incubator have been evaluated and presented in more detail. Taking into consideration the Serbian regional economic analysis, presented in Chapter 2.2, evaluation and selection were performed considering parameters such as: local market, development strategies, defined development policy, level of innovation and entrepreneurship, ownership, local network, competence, sources of financing, local drivers and their commitment, identified site possibilities.

The Programme will provide technical support to all the above-mentioned initiatives for establishing business incubators through practical application of the 'step by step', training, monitoring, consulting, technology and know-how transfer, business matchmaking, institution building and networking.

The Programme will also be working on providing necessary financial resources for business incubator establishment initiatives.

Development implementation dynamics of the individual incubator is to a great extent dependant on the stakeholders' motivation and capacity on the local level and the practical approach in project development. Also, financial support that may be provided by the donors, support from the Serbian state budget, as well as support from the National Investment Plan, will be conditioned by fulfilment of the previous assumptions.

7.2. Legal Framework for Establishing and Running the Business Incubator

In establishing and running business incubators there is a need for a number of aspects to be legally analysed and covered. It is related to different levels of relationships between all parties involved, on international, national and

regional levels, as well as the incubator and tenant companies level.

The legal framework for establishing and running the incubator and incubator companies (tenants) and technology and science parks has been developed during the establishment and development of the Pilot Business Incubator in Niš.

The essence of the concrete contracts and other legal instruments that have to be prepared and concluded are presented in the “Project Proposals” document.

7.3. Training of Entrepreneurs and SMEs

The already developed and proven Training Programme for Pre-incubation, Incubation and Post-incubation Phase (Training Programme) is an integral part of the Programme. This Training Programme is made to suit the need of:

- Potential entrepreneurs before they decide to start up their business or join a business incubator;
- Owners/managers of small or medium-sized companies in the first years of their development or tenant companies in business incubators;
- Owners/managers of small or medium-sized companies after the first years of their development or tenant companies when they leave business incubators.

It is an open and dynamic programme that is updated and provides the required tools to entrepreneurs in every phase of development of their competencies, as well as in every phase of development of their business ideas. The main feature of the Training Programme is practical tools that help entrepreneurs in resolving problems they face in various phases of their activities, competencies that are delivered by the trainers, coaches, mentors and special consultants.

The concept contains role definitions for training coaches and advisors. The Concept is transferable and designed for different purposes, so it can be used outside the business incubator premises.

7.4 Industrial and Science Parks

The Law on Innovation Activity defines a science and technology park as “...a commercial company, which, within designated space, provides infrastructural and professional services to higher education, innovation organisations, as well as to high- and medium-technology commercial companies in a particular scientific, research and development or production grouping for the purpose of connecting them in order to apply more rapidly new technologies, create and market new products and services..”. (Article 23). Parks are defined as organisations providing infrastructure support to the innovation activity. The Programme is operating in accordance with the Innovation Strategy (currently in preparation) and Law on Innovation Activity with the special focus on:

- Industrial parks – the basic goal of developing the concept of industrial parks is generating new enterprises through providing integrated infrastructure on a certain location and with the necessary knowledge. They are usually close to different transport infrastructure and/or existing industrial plants;
- Science parks - often called a research or technology park, are areas set aside for businesses and institutions based on scientific research and development. Such parks are integrated with universities or technology/science centres and are aimed at bridging the gap between R&D institutions and enterprises.

The Programme offers two approaches to park establishment:

- 1) “Business Incubator Expansion - establishing a park around or as an expansion of a business incubator. This

approach enables that experience acquired through establishment, development and running an incubator can be used in the park establishment and development. In order to apply this model, certain preconditions must be fulfilled:

- A business incubator has to be established in an expandable environment, with a potential market, science institutions in its environment, existing developed industry and necessary infrastructure;
- Preliminary incubator design must take into consideration possibilities for its expandability and adaptability to standards required for the park establishment;
- In accordance with the Law on Innovation Activity, the design of science and/or technology parks and industrial parks should comply with certain specified conditions such as: conditions for establishment, ownership, funding; services; management; code of conduct and legislation.

2) "Park Establishment" – this approach is based on this initial park establishment. Preconditions for establishing such an infrastructure are: defined ownership relations; national, regional and local development strategies; existing local network of service providers; existing local business network; commitment of local authorities and other stakeholders; developed entrepreneurial environment; links with universities and/or academic institutions; adequate sources of available and planned finances; suitable areas and premises defined; degree of necessary cooperation required, etc.

Disregarding the model chosen for park establishment, the Training Programme is transferable and applicable for the companies placed within the park. See 7.3. Training of Entrepreneurs and SMEs

Within the Programme implementation, analysis of specific locations and possibilities for the park establishing will be performed. So far, Belgrade, Novi Sad, and Niš are identified as possible locations. Already now, it can be seen that these locations will be developed in different manners. Novi Sad has a science park in cooperation with the University of Novi Sad. The Niš initiative has potential in expanding existing business incubators in the available Mechanical Industry Niš (MIN) premises with a focus on the industrial park profile. Other locations will be considered as well. This activity will be conducted in close cooperation with relevant national institutions, i.e. the Ministry of Science and Environment Protection, Ministry of International Economic Relations and other partner institutions.

8. Business and Innovation Networking

The Business and Innovation Networking components in the value chain of the Programme Model consist of three sub-components:

- Business 2 Business (B2B);
- Business Clusters;
- Innovation Relay Centre.

Proposals for Business 2 Business, Cluster Development Project and Innovation Relay Centre in Serbia are presented in Project Proposals.

8.1. Business 2 Business

Establishment of infrastructure, i.e. incubators, parks and clusters, development of Serbian companies for the international market and strengthening the SME and entrepreneurial environment are necessary preconditions for building up business partnerships. Tenants within the incubators or parks, as well as cluster networks need strong anchorage and generators of their further growth.

The B2B component aims at developing the private sector by supporting establishment of long-term and mutually committing partnerships between foreign companies and companies in Serbia, as well as between Serbian-based companies only. Within a favourable environment, B2B projects can facilitate long-term business and assist in:

- Identifying foreign companies and getting access to information, technology, know-how and attracting foreign investments;
- Obtaining access to new markets, products and production opportunities for foreign companies;
- Empowering companies and their partnership in the process;
- Developing products and services;
- Improving the operational efficiency;
- Maintaining regular cooperation with customers, suppliers, financial sources and other.

As an example, tenants in the Business Incubator in Niš perform their business activities within export and sales, and their cooperation is commercially based, with equal exposure to risk.

The Serbian Agency for SMEE will work closely with the Serbian Investment and Export Promotion Agency (SIEPA) and facilitate individual cooperation projects. In general, it will assist companies in the following tasks:

- Formulation of company profile and partnership idea;
- Searching for B2B partners;
- Preparation of B2B partners' agreements;
- Product and market development.

The institutional infrastructure that supports export activities in national enterprises is comprised of SIEPA, Export Credit and the Insurance Agency of the Republic of Serbia and Fund for the Development of Republic of Serbia. There are as well acting donor projects with the focus on export facilitation of the national enterprises export activities. The Programme will implement B2B activity through the established institutional infrastructure comprised of the above-mentioned institutions, as well as through the harmonised work with the donor projects.

Risk aspects in export

The Risk Check methodology, developed within this Programme, has an aim to support an enterprise in the early export or international cooperation phase and to provide an overview of the critical frame condition related to the export of goods and, partly, of services. Application of this methodology provides a higher level of competitiveness and decreases risk.

The Check-list itself consists of relevant questions and problems that must be solved in order to demonstrate possibilities and obstacles for export. On the basis of received answers, the analysis will provide indications of whether the priorities related to the chosen export market were set correctly or if they should be changed. Analysis will also provide the basis for forming an activity plan for the purpose of increasing knowledge and skills needed for business in the international environment.

Export Risk check deals with the following topics: legal system and contract conclusion, foreign trade and customs procedures, Value Added Tax, intellectual property rights, choosing sales channels, production requests/standardisation, requests for packing, marking and environmental protection, transport terms, terms of delivery - Incoterms 2000, choosing terms of payment and payment insurance for export, and production responsibility.

In other countries the Export Risk Check has proven a valuable impact within B2B operations and networking, as well as in traditional export. The Export Risk Check is also included within the training concept for entrepreneurs.

8.2. Business Clusters

Experiences of developed and developing countries show that clusters are an efficient instrument in increasing competitiveness of companies and also the economy itself. Therefore, initiatives for clusters establishment become an important part of industrial, regional and innovation policy. Through cluster initiatives innovations are promoted, as well as upgrading through new partnerships, foreign direct investment policies are focused on attracting individual investments into the region, offering the possibility of cooperation with the existing clusters. The third policy field where cluster initiatives have made an inroad is science, research and innovation.

Clusters are geographically and virtually the closest group of interconnected companies and associated institutions in a particular market or technology field, linked by commonalities and complementarities. Clusters usually encompass an array of linked industries and other entities such as universities, standard setting agencies, vocational training providers, trade associations, etc.

It is a fact that clusters have not developed enough in Serbia. There have existed some organisational forms similar to clusters such as value chains, agglomeration of business, etc, but they have lacked an intense exchange of business information, know-how, and technological expertise, share of knowledge and resources in the innovation process. Besides, there were donor funded initiatives for promotion of clusters in certain industry sectors such as: fruit products, tourism, furniture, pharmaceutical research, ICT, textile, automotive, wine, tourism, etc.

Experiences gained so far show that there are many problems and obstacles for cluster development. First of all, the lack of trust and a low level of linkages and cooperation between companies. As it was stated earlier, research collaboration between university and industry is not well-developed. Besides the mentioned, the insufficiently developed entrepreneurial spirit contributes a great deal to challenges of faster and more efficient application of the cluster concept.

All challenges notwithstanding, the Ministry of Economy has, within its activities, formulated a policy with the purpose of increasing economic growth, creating new jobs and increasing competitiveness of the SMEE sector. As

the concretisation of the formulated policy, in 2005, the Ministry of Economy launched a pilot project “Cluster Development Support Project”.

The starting point of the Project is that the Ministry should act only as a catalyst in the cluster development process. The Project secures that only stakeholders, i.e. employees and cluster management, define strategies, rules and organisation form. They also have to co-finance 50% of the project and thus show financial responsibility and commitment. By selecting projects for granting, the Ministry ensures that cluster development goals are met and that chosen clusters can be sustainable. The Project “Cluster Development Support Project in 2007” will be implemented as an integral part of this Programme. See the “Project Proposals” document.

Within the Programme implementation, the following points will be considered:

- The process of identifying, defining, and describing a cluster is not standardised. All cluster analyses rely on evaluation of local and regional employment patterns, based on SIC codes, classification of industries. Each cluster has its own culture and conditions, and its needs and potential must be individually assessed. Successful cluster initiatives, first of all, have to build clear explicit framework, based on a cluster’s own strength;
- Cluster initiatives that involve competitors in a value chain, small companies, and foreign companies, not only domestic - perform better;
- The selection of projects for granting has to be through open procedure and companies self-organised in clusters have to express strong awareness of joint interest through clustering and take the entire responsibility for cluster performance;
- Besides financial support to establishing clusters, the existing network of SME business support infrastructure (The Serbian and Regional Agencies for SMEE) should be engaged for organising and conducting the adequate trainings for cluster concept development in the specific regions;
- Organising joint seminars, workshops and annual conferences, as well as visits of Serbian clusters to international and cluster events will enhance the knowledge about clustering, to make international links stronger and present Serbia as a respectable developmental partner;
- Donor support in providing technical assistance will be of outmost importance. There are a couple of donors supporting cluster initiatives. One of the Local Economic Development in the Balkans (LEDIB) components, a project supported by the Danish government is Cluster Development and it refers to the identification of clusters and to the development of linkages and linkage programmes between enterprises in construction and textile clusters in the Niš region. The Canadian government (CIDA) is providing technical support to companies interested to form the clusters.

8.3. Innovation Relay Centre

The innovation system includes actors from the business, public and “knowledge” sectors. The last two are often referred to as the support structure. All these actors should cooperate in creating an innovative environment and hence stimulate innovation. This model with the three sectors cooperating is often referred to as the triple helix model.

Networking is essential for success of the triple helix model, especially networking between the companies and the knowledge base (HEI – higher education institutions and research institutions) is considered to be of particular importance. As the economy becomes more and globalised, the companies have to establish networks both with the national and the international knowledge base.

IRC Network, supported by the European Commission, is the world’s largest network for diffusion and exchange of technology. IRC services are primarily targeted at SMEs. The objective of the network is to enhance European Business Competitiveness by strengthening the technology and innovation base of Europe’s SMEs. Each individual

centre has a contract with the European Commission. The contractor is normally a consortium of organisations like regional or national development agencies, polytechnic universities, research institutes, chambers of commerce etc.

Serbian authorities have inquired with the European Commission regarding Serbia's status as eligible for setting up an IRC office under contract with the Commission. Based on the Consortium Agreement, a Consortium has been formed, which should formally apply with the purpose of realising IRC Serbia. The Project is an integral part of the Programme. For more information, see Innovation Centre in Serbia presented in the "Project Proposals" document.

Furthermore, the EC has passed a resolution to establish a joint IRC-EIC network office in Serbia. The Euro Info Centre (EIC) network will make sure that SMEs are well prepared to use potentials of the EU market. The network's mission is to inform and advise and assist enterprises, as well as to provide feedback to the European Commission.

There is, however, a great need to mobilise the national knowledge base to transfer knowledge and technology to the business sector. Therefore, the national technology transfer programmes are a vital part of the innovation system in most countries.

Within the system of university and science institutions, there are state-owned and private universities and a large number of R&D organisations in Serbia. A national technology transfer programme should be developed to utilise especially the technological knowledge in these institutions. This would be beneficial for the companies and hence for the Serbian economy. Such a programme should be developed stepwise, starting as a pilot project involving one or a few knowledge institutions to develop a model suited for Serbia.

Business development programmes, both for mature companies and entrepreneurs/start-up companies, can be successfully operated as network programmes. There is a considerable experience, e.g. from Norway, that the network approach results in more efficient processes in the companies. Additional effects in the form of development of joint venture projects, exchange of experience, cooperation regarding purchase agreements, marketing and export can also be the result of network projects.

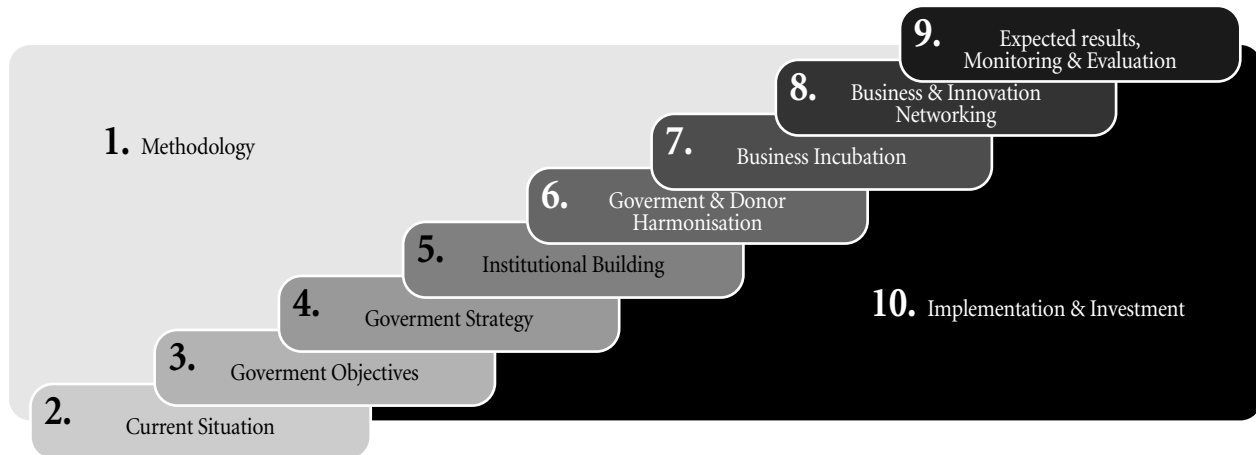
Existing innovation support structure is at a very low level in Serbia. The new Law on Innovation opens the possibility for a registered Innovation Centre that could be a valuable tool for increasing the innovation activities and hence value creation in Serbia. The National Innovation Strategy, currently under preparation, will provide the framework for innovation activities. Development of the regional agencies is important also when it comes to concretising and implementation of innovation activities. The Programme will contribute to strengthening of innovation in Serbian companies along the lines described above.

9. Expected Results, Monitoring and Evaluation

The following chapter presents the principles and framework for the Programme's expected results, monitoring and evaluation.

As it is already described in Chapter 1, the Programme methodology is based upon the value chain model, its components previously explained, whose implementation leads to realisation of expected results.

Figure. Programme Model-Value Chain



The expected Programme results are of qualitative and quantitative nature and are achieved through performance in each of the defined Programme components; institution building, government and donor harmonisation, business incubation and business innovation networking. Results measuring of the Programme are based upon the following concrete principles:

- Action area – Clearly defining areas to be evaluated are concretely described;
- Relevancy – Precisely defining parameters based on their importance;
- Effectiveness (concrete influence on the environment) - Clearly defined changes;
- Time definition - Results are measured limited to the programme period;
- Definition - Results of measuring are directly linked to the objectives of the programme, side effects are not included.

As the Programme is measured only on specific results, the impact of side effects of its implementation will be a subject for wider research, since such influences on the society, environment or business development may prove to be of value.

Furthermore, evaluation is based upon a description of the overall status compared with the situation prior to the Programme implementation and the one after it.

The two evaluation levels are:

- The Programme's overall qualitative results;
- The Programme's component qualitative and quantitative results.

1) The Programme's Overall Qualitative Results

In accordance with the value chain model and its components, the following table describes overall qualitative Programme results, presented in a more descriptive manner.

Table. Overall Programme Qualitative Results

Programme Components	Results	Planned Actions
1 Programme Methodology	The sum of qualitative results will lead to the expected results for the Programme	Implementation of all project components
2 Current situation	Well understood basis for implementing the Programme	Special research of markets and regional demands
3 Government Objectives	Designing Project Results as sub- results to GoS objectives	Design each component of Programme to support expected results
4 Government Strategy	The Programme Design as practical tool for implementing the Government strategies	Continuous formal and informal contact and project review
5 Institution building	Developing institutions to become efficient support functions for SMEs	Provide capacity building to MIER, Ministry of Economy, Republic and Regional Agencies, Business Incubator Support Centre
6 Government and Donor Harmonisation	Establishing cooperation, common strategies and funding agreements	Continuing to work with existing and new donors
7 Business Incubation	Establishment of business incubators, clusters and parks in accordance with the priorities of GoS	Supporting initiatives with practical experience, tools, templates in processes of implementation
8 Business & Innovation Networking	Programme established SMEs competitive advantages	Establishing networks such as IRC, EIC and clusters
9 Programme Results	Achieving stated quantitative results for new jobs, new enterprises and clusters	Implementing every component described in the Programme in accordance with the plan and expected qualitative results
10 Programme Implementation and Financing	Securing described implementation by action planning and provision of adequate financial means	<ul style="list-style-type: none"> • Practical field Project monitoring and formal programme control • Funding by government and donor harmonisation

2) The Programme Component Qualitative Result

The main areas for realising expected Programme results are:

- Stability of the stated long-term SMEE national strategies;
- Commitment of the stakeholders on the international, national and local levels;
- Institution building and infrastructure development;
- Government and donor activities harmonisation;
- Secured Project funds.

The main areas for measuring results and evaluation on the component level are shown as follows:

Institution Building

- At the national level, provide support for reorganisation of work, hiring additional staff, skills development and supply of equipment;
- Strengthen inter-ministerial cooperation and cooperation with other institutions;
- Establish the Business Incubator Support Centre;

- Regional or local institution building by providing staff, skills development through learning by doing and training, reorganisation of work and equipment supply;
- Provide networking and coordination of all initiatives (including donors) in developing SME and entrepreneurship in defined region of interest and their connection to Programme;
- Support Serbian Association of Business Incubators;
- Cooperation with universities and research establishments.

Government and Donor Harmonisation

- Choosing a model for harmonisation of the Government and donor activities;
- Formalise “Explicit Agreement“ between donors that will describe consultation mechanisms and respective roles expected from each donor during the Programme implementation;
- Defining a long-term cooperation model.

Business Incubation

- Building local capacities for establishment, operationalisation and sustainability of business incubation;
- Degree of enterprise innovativeness within business incubators;
- Level of cooperation between local and national institutions;
- Business incubator networking.

Business and Innovation Networking

- Degree of knowledge and technology transfer to the business sector;
- Level of networking within the cluster;
- Level of exchange of experience, cooperation regarding purchase agreements, marketing and export.

3) Specific Programme Results are:

- Strengthened public-private partnership
- Minimum of 15 business incubators established and operational;
- Minimum one park established;
- Serbian Association of Business Incubators established;
- Innovation Relay Centre established;
- Minimum of 10 operative clusters established;
- Business activities increased.

Further below, for the sake of illustration, follows an example of multiplication of new jobs and new enterprises generated within one business incubator.

Table. Estimated New Jobs and New Enterprises Generated by One, Three and Five Generations in One BI

Parameters	I generation	III generation	V generation
Number of jobs			
10 production enterprises with 6 employees	60	180	300
5 service / high-tech enterprises with 3 employees	15	45	75
3 Staff	3	3	3
2 FTEs	2	2	2
Total	80	230	380
Number of new companies	15	45	75

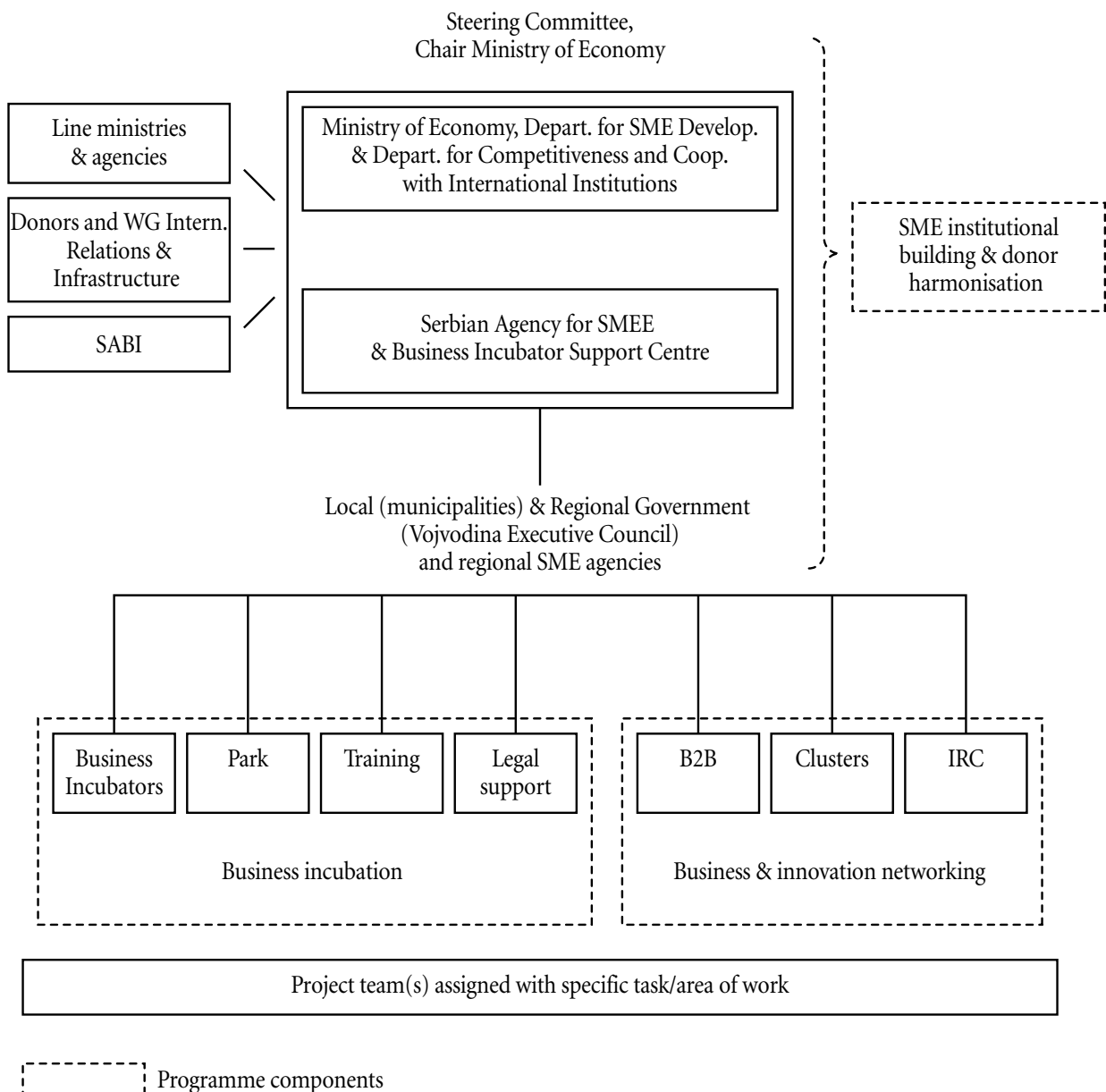
As already pointed out, business incubators are part of a long-term SMEE infrastructure. Therefore, it is envisaged that after three generations (first generation 2007-2010, second generation 2011-2013, and third generation 2014-2016) in a total 675 new enterprises and 3600 new jobs will be created.

10. Implementation and Investment

10.1. Implementation Structure of the Programme

The Programme implementation will be performed through the established SME infrastructure: the Ministry of Economy is the National Lead Partner, the Serbian Agency for SMEE is the National Implementing Partner and local authorities and regional agencies for SME are implementers on the local level. In order to ensure the Programme implementation, each institution and international partner has defined concrete tasks and responsibilities. See Figure that follows.

Figure. Programme Implementation Structure 2007-2010



Steering Committee

The Steering Committee (SC) will be established³ and assigned the task to supervise the Programme implementation. It will be comprised of representatives from the Ministry of Economy, Ministry of International Economic Relations, Ministry of Labour, Employment and Social Policy, Ministry of Science and Environmental Protection, Serbian Agency for SMEE, Ministry of Finance, Serbian Investment Promotion Agency and Chamber of Commerce.

The SC will be mandated by the Ministry of Economy to provide the institutional mechanism and framework for the Programme implementation. Furthermore, the SC will monitor the implementation and will be fully responsible for the results defined by the Programme.

Ministry of Economy

The Ministry of Economy is the National Lead Partner with the following responsibilities for the Programme:

- Chair of the Steering Committee and Working Group International Relations and Infrastructure;
- Policy-making and strategic approach related to SME business incubation and support to SME infrastructure development;
- Securing Programme sustainability and knowledge transfer;
- Securing contribution to the Programme implementation from the National Budget;
- Follow up of the legislation framework and legislation changes for SMEE;
- Chair Advisory Committee established for following NIP implementation;
- Cluster Support Project implementation;
- Programme monitoring and evaluation.

Serbian Agency for SMEE and Business Incubator Support Centre

The Serbian Agency for SMEE is the Lead National Implementing Partner, except for project activities to be implemented by the Ministry of Economy (listed above). The Agency is the implementer of the national SME policy and coordinator of the national network of regional agencies.

The established Business Incubator Support Centre within the Agency will be responsible for the Programme implementation (national level). For more information see Chapter 5.1 and the proposal Institution Building on the National Level presented in the “Project Proposals” document.

Local authorities, regional agencies for SMEE and other partners (to be determined, depends on the business incubator location) will have the full implementation role on the local level.

Working Group International Relations and Infrastructure

The Working Group for International Relations and Infrastructure will perform the following tasks:

- Discussions, planning joint activities and exchange of information on donor activities within the SME sector;

³ ENTRANSE Steering Committee will be expanded with new members.

-
- Monitoring and evaluation of the joint donor activities regarding the Programme implementation;
 - Provide support (TA, financial etc.) to the Programme implementation;
 - Promote best practice and joint activities within the donor community.

In addition, the annual Mapping of International Assistance within the SME sector will be prepared by the Serbian Agency for SMEE and presented to the Working Group. The Report will contain the following:

- Overview of existing international assistance (by programme, projects etc.);
- Evaluation of the usage of previous years' donor funds, best practice, lessons learnt;
- Areas/gaps within the sector where donor intervention is necessary;

Each location and/or components will be financed by one donor or donor consortium. The mechanisms to be used are presented in the "Project Proposals" document.

Having in mind the complexity of the Programme implementation, international presence is crucial. It will keep the balance, neutral position and secure achievement of the Programme results.

Reporting

The Department for SME Development and Department for Competitiveness and Cooperation with International Institutions within the Ministry of Economy (Assistant Ministers) and Business Incubator Support Centre (Manager) will prepare and submit the 6-months progress report and Annual Report from the field of their responsibility to the Steering Committee.

10.2. Investment – Estimation

As already stated, the Programme consists of components, sub-components and concrete project proposals. Through defined projects, the Programme reflects the local needs and builds upon the existing local capacities and possibilities. Individual project implementation depends upon the stakeholders' ability to demonstrate and prove practical progress of their initiative. Therefore, projects are in different stages of maturity. Some of them have already secured initial financing and have already started with implementation and others are still in the preparation phase.

The financing follows the same approach. Each component/subcomponent or project will have its own financing depending on the capability of the implementing partner to secure financial support from the Serbian state budget, local budget, involvement of the private sector, additional donor financing or other sources. It is also envisaged that the implementing partners will secure financing in most of the cases from different sources and in these cases, procurement and other mechanism of joint support will be applied. Each of the projects will be established with the detailed budget.

It is estimated that a total investment of € 23 million for the period of four years (2007-2010) is needed for the complete Programme implementation. This estimation is based upon the available information in October 2006 and is presented for Programme components in the Table below.

The Programme Component	Estimated Amount –Total 4 Years (€)
Institution building and Government and donor harmonisation	3 000 000
Business incubation • 15 business incubators • Minimum one park	17 000 000 15 000 000 2 000 000
Business and innovation networking	3 000 000
Total	23 000 000
Cost for creation a new job (small enterprise) with the support from 15 business incubators after 3rd tenant generation	7 100

Table Explanation

1. **Estimated Amount** - Indicated Support 4 Years (€) The National Investment Plan has already secured € 3 million for the period 2006-2007, with indicated continuation of the support in 2008. Furthermore, there are already indications for the possible support from donors and municipalities. It is estimated that at least € 10 million is already indicated for the support to Programme implementation.

2. **Institution building and Government and donor harmonisation** - The estimated amount of € 3 million is needed to increase capacities of the SME institutions on the national and local level including establishment of SABI. Additional sources would be needed to support the efforts for establishing joint mechanisms for the donor and government harmonisation.

3. **Business incubation** - The largest part of the Programme is the investment in establishment of permanent infrastructure that will support generation of entrepreneurs, SMEs and enterprises, as well as development of their competence and capacity. It is important to note that establishment of the incubator and parks include the total package for their establishment, development and running, i.e. reconstruction of the building, equipment of the incubator, providing grant scheme for tenants, providing training, running costs, international and national technical assistance, necessary networking activities etc.

4. **Business and innovation networking** - the largest part of this investment is for the cluster establishment. A significant portion of these resources has already been allocated.

5. **Cost for creation a new job (small enterprise) in Serbia with the support from business incubators after 3rd tenant generation** - It is estimated that investment in 15 business incubators after the three generators of tenants will produce 3600 jobs and 675 enterprises.

As stated, the Programme estimates that for four years € 1 million is needed in investment to establish, develop and run the business incubator. Furthermore, the Programme also estimates that after the 4th year of incubator establishment, costs will include only running costs, which amounts to around €100 000 on the annual basis. The total investment for establishing permanent sustainable business incubator infrastructure for the period of 2007-2016 is € 25 560 000.

Comparing the investments needed and jobs and enterprises created, less than € 7 100 per job in small enterprise enterprises is needed. Estimation of the Serbian Agency for SMEE (which was calculated based on the value of fixed assets in 2003) is that € 8 200 for the job creation in small and € 16 400 for medium enterprises is needed. The estimation from the Development Fund also shows that not more than € 20 000 is needed to invest to create one job in the SME sector. Furthermore, international statistics calculate more than €100 000 total cost is needed for creating one new job in Western Europe.

It is important to note that the calculation doesn't take into consideration how many new jobs and enterprises can be created by parks, clusters, and effects of the companies that have left the incubators. This permanent infrastructure is increasing the level of competitiveness of already exiting enterprises and has spin-off effects that are difficult to calculate. Also the effects of the Programme component institution building that will be reflected in an increase of efficiency and effectiveness of public administration, as well as in an increase of jobs are not taken into account.

Bearing in mind all the above stated, there is a task for the Government of Serbia, local government, international partners and private sector to contribute to the total investments needed for the full Programme implementation. The estimated cost of € 7 100 for single job creation can be achieved only in the case that all partners are working under the Programme in a more efficient and effective way.

10.3. Project Proposals – Summary

The “Project Proposals” document builds upon and further specifies Methodology and General Programme Design. For some of the Programme’s components, project package and/or proposal are developed and presented. It includes only projects that were ready to be presented in November 2006.

Projects reflect the local needs and build upon the existing local capacities and possibilities. Individual project implementation depends upon the stakeholders’ ability to demonstrate and prove practical progress of their initiative. It also depends on financial support from the Serbian state budget, local budget and additional donor financing.

The Programme is common ground for further development and the main idea is that interested stakeholders can choose one (or more) projects, and further develop them in the framework of their own strategies and financial possibilities.

Table. Project Proposals for the Programme Implementation

Programme component	Projects and initiatives	Source (Requested, indicated & approved)
Institution building / Government and Donor Harmonisation	<ul style="list-style-type: none"> • Institution building for the National Level • Establishment of Serbian Association of Business Incubators 	<ul style="list-style-type: none"> • National Budget & donor • National Budget & donor
Business Incubation	15 business incubator initiatives (Niš, Užice, Zrenjanin, Valjevo, Smed. Palanka, Bor, Kragujevac, Rakovica, Zaječar, Novi Pazar, Kruševac, Prokuplje, Medveđa, Leskovac, Pančevo, Novi Sad, Subotica, Novi Beograd, Pirot, Vranje, Sombor, Kanjiža, Čačak, Kikinda, Palilula, Lazarevac, Knjaževac) <ul style="list-style-type: none"> • Support to 1 park (location not determined) 	<ul style="list-style-type: none"> • National Budget, NIP, VIP, MB, private sector & donors (Norway, USAID, Switzerland, the Netherlands, Austria, OSCE, EU/IPA) • National Budget, MB, & EU/IPA
Business and Innovation Networking	<ul style="list-style-type: none"> • Support to Cluster Development • Support to Innovation Networking (IRC) 	<ul style="list-style-type: none"> • NB & donor (Norway, Denmark) • National Budget & Norway

(1) NIP=National Investment Plan (2) MB=Municipality Budget (3) VIP=Vojvodina Investment Fund

10.4. Background Analysis, Tools and Reports -Summary

During 2004-2006, a documentation package that supports and further specifies the implementation of the Programme has been developed. These documents are available on the websites www.mpriv.sr.gov.yu and www.sme.sr.gov.yu.

1. Regional Economic Analysis of the Republic of Serbia

The Regional Economic Analysis of the Republic of Serbia is a result of field research conducted in September 2006 in 25 administrative districts in Serbia. The main objective of the research was to analyse the Serbian SME market and suggest strategic approaches to economic development and especially SMEE sector development for every district. Through field research, data was collected and presented in the report with the following goals:

- Present the important economic, employment and industrial development data in each district;
- Emphasise economic specifics of every district in Serbia;
- List the most important investments in every district in Serbia;
- Show the activities of research institutes and universities in every district in Serbia;
- List the organisations and institutions in every district that support SME development;
- List the successful big corporations in the district and their fields of activity;
- List the leading SMEs in every district and their business activities;
- Point to the specific comparative advantages of individual districts, with special emphasis on the SMEE sector activities;
- Present the potential and existing efforts of local institutions to support the development of the SME sector in every district, such as business incubator development initiatives and technology/industry park development initiatives;
- Recommend the future activities of national and local institutions to support the growth of the SME sector in every district in Serbia.

For the detailed economic analysis of each district, see the “Attached Documents - Analysis, Instructions and Reports”.

2. Step by Step Guide for Creating Business Incubators

The objective of the Step-by-Step Guide is to introduce the readers to practical experiences in establishing and developing sustainable business incubators. The Guide is a comprehensive roadmap for planning, developing and running the business incubator. It is based upon practical experiences from the complete process of business incubator planning, establishment and development.

The reader is advised to read the Guide in depth before attempting to establish incubators. The Guide describes phases of the incubator and tenant’s development, and the recommendation for each phase. Furthermore, each step in the business incubator development process is presented with specific attention paid to potential pitfalls. A complete check-list for implementation of incubators is included. Practical and operational suggestions for incubator management and the necessity to define the long terms objectives are described. See “Attached Documents” Analysis, Instructions and Reports.

3. Export Risk Check

The Export Risk Check has the aim to help enterprises in an early export or international cooperation phase and to provide them with an overview on the critical framework conditions related to export. It will help enterprises to recognise, check and analyse export business risks and insecurities in order to reduce them through good planning. See “Attached Documents” Analysis, Instructions and Reports.

4. Benchmarking Report – Business Incubators in Central and Eastern Europe

The objective of Benchmarking Report is to support the design and establishment of business support institutions in the selected countries in transition in Central Eastern Europe and the Commonwealth of Independent States by

analysing the best practices. National presentations were made based on the Questionnaire on Business Incubators in Serbia, Croatia, Hungary, Poland, Romania, Macedonia, Slovakia, Slovenia, Turkey, Armenia, Georgia, Moldova and Ukraine. See “Attached Documents” Analysis, Instructions and Reports.

5. Overview of the National and Regional Business Association

The document summarises and gives an overview of national and regional associations in the United States (National Business Incubation Association), Canadian Association of Business Incubation, United Kingdom Business Incubation, Polish Business and Innovation Centre Association and Hungarian Association of Business Incubators. Lessons learnt and recommendations for the Serbian Association of Business Incubators establishment in Serbia are presented. See “Attached Documents” Analysis, Instructions and Reports.

6. Overview of Donor Financial and Procurement Mechanisms for Project/Programme financing in Serbia

The purpose of the Document “Overview of Donor Financial and Procurement Mechanisms for Project/Programme Financing in Serbia” is to provide a framework of donor financial and procurement procedures for the following presented donors: Sweden, Norway, Switzerland, Austria, European Commission (Instrument for Pre-accession), United States (MEGA project), Germany (GTZ) and the World Bank. The Document is aimed at national and international stakeholders to streamline and rationalise management (financial and procurement) procedures, as well as to facilitate channelling of all donor support in an efficient and better managed way. The Document should support transfer of ownership of donor assistance from foreign to Serbian national institutions and support the integration of donor assistance into national development goals, programmes and strategies. It will provide tools and methods for engaging donor and Government stakeholders in moving towards harmonised procedures for the planning, implementation and reporting of development assistance at the sectorial level. See the “Attached Documents” Analysis, Instructions and Reports.

11. References

- A Report on Small and Medium-sized Enterprises and Entrepreneurship in 2004, Ministry of Economy, Republic Development Bureau, Republic Agency for the Development of SMEs and Entrepreneurship, (2005);
- A Report on Small and Medium-sized Enterprises and Entrepreneurship in 2005, Ministry of Economy, Republic Development Bureau, Republic Agency for the Development of SMEs and Entrepreneurship, (2006);
- Annual Report, 2004, Republic of Serbia, Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship, Belgrade, 2005;
- Annual Report, 2005, Republic of Serbia, Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship, Belgrade, February, 2006;
- Council Decision of 30 January 2006 on the principles, priorities and conditions in the European Partnership with Serbia and Montenegro included Kosovo as defined by the UN Security Council Resolution 1244 of 10 June 1999 and repealing Decision 2004/520/EC, Official Journal of the European Union, February 2006;
- ENTRANSE, National Programme Framework, Business Incubators–Entrepreneurial Training - Technology / Science Parks (2005), SINTEF;
- European Charter for Small Enterprises, EU;
- Law on Innovation Activity, Ministry of Science and Environmental Protection, Government of Serbia (December 2005);
- Harmonisation & Alignment - Enhancing Efficiency and Effectiveness of International Assistance in the Republic of Serbia, Progress Report, (February 2005), Ministry of International Economic Relations, Government of the Republic of Serbia, Belgrade;
- Final Report on the Use of Project Funds, Private Sector Development Republic of Serbia, ENTRANSE (2004-2005), April 2006;
- In Brief, Economic Growth, Swedish International Development Cooperation Agency (2005);
- Integrated Regional Development Plan of Vojvodina – IRDP, (September 2003), the Executive Council of the Autonomous Province of Vojvodina;
- “Memorandum on the Budget and Economic and Fiscal Politics for 2007 with Projections for 2008 and 2009”, Republic of Serbia, Ministry of Finance, Belgrade, May 2006;
- National Employment Strategy 2005-2010, Government of Serbia (April 2005)
- National Strategy for the Economic Development of Serbia, 2006-2012, Draft, Ministry of Economy and Republican Development Bureau (2006);
- Poverty Reduction Strategy; Government of Serbia (2004);
- Report on the Implementation of the European Charter for Small Enterprises, Moldova and the Countries in the Western Balkan, Commission Staff Working Document (SEC(2006)283), Directorate-General for Enterprises and Industry (2006);
- The Plan of the Government of the Republic of Serbia for Stimulating Small and Medium-sized Enterprise and Entrepreneurship Development 2005-2007, Ministry of Economy, Belgrade, October 2005;
- The Road Map for Sector Support -Discussion Paper, (February 2005), Ministry of International Economic Relations, Government of the Republic of Serbia, Belgrade;
- Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship 2003-2008 , Government of Serbia (2003);
- Questionnaire on Business Incubators in Selected Central Eastern European & Commonwealth of Independent States Countries, Business Incubator in Serbia, ERENET & SINTEF (2006);

12. List of Acronyms

Serbian Agency for SMEE	Serbian Agency for the Development of SMEs and Entrepreneurship
BIC Niš	Business Incubator Centre Niš
B2B	Business 2 Business
Support Centre	Business Incubator Support Centre
Department	Department of SME Development, Ministry of Economy
EC of AP Vojvodina	Executive Council of the Autonomous Province of Vojvodina
EIC	Euro Info Centre
FTE	Full time equivalent
IPA	Instruments for Pre-Accession
IRC	Innovation Relay Centre
IRDP	Integrated Regional Development Plan
Joint Project	Joint Programme for Support to the Ministry of International Economic Relations for improvement of coordination, planning, programming and implementation of development assistance Development Assistance Coordination Unit
LEDIB	Local Economic Development in the Balkans
MEGA	Municipal Economic Growth Activity
MIN Niš	Mechanical Industry Niš
MIER	Ministry of International Economic Relations
MoU	Memorandum of Understanding
Programme	Programme for Business Incubators and Clusters in the Republic of Serbia, 2007-2010
NIP	National Investment Plan
PRS	Poverty Reduction Strategy
SABI	Serbian Association of Business Incubators
SC	Steering Committee
SINTEF	SINTEF Technology and Society, International Operations
SME	Small and Medium-sized Enterprise
Strategy for SMEE	Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship 2003-2008”
ToR	Terms of References
USAID	United States Agency for International Development
WG	Working Group

