

# Review of Norwegian support to business development projects in the Western Balkans



## About the report

**Review of Norwegian support to  
business development projects in the  
Western Balkans**

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## Introduction

The purpose of this review is to provide information and knowledge to the Norwegian Ministry of Foreign Affairs (NMFA), regarding the outcome and effects of six business development projects, supported by the NMFA and implemented in the Western Balkans in the period from 2004 to 2017.

The review assesses if and to what extent the intervention by the NMFA, including financial and competence resources invested, has led to results intended and desired by the NMFA and its partners. It also investigates whether results are sustainable following donor exit from the projects. The report also provides several key take-outs as lessons for future business projects of this nature. The focus of the review is on relevance, impact and sustainability, and to a lesser extent effectiveness and efficiency.

The review is primarily based on qualitative data, gathered from documents and through interviews. Oxford Research has had access to relevant documents, such as final reports from project and other documents describing content and progress of the projects. In addition, Oxford Research has interviewed the Norwegian project managers, in Siva, Sintef, LEN and Boost Global Innovation. We have also visited and interviewed the six business centres established by the projects, as well as the four Norwegian embassies involved.

This assignment has been conducted by senior analysts André Flatnes and Elisabet S. Hauge in Oxford Research. In the Ministry of Foreign Affairs, senior adviser Olav Reinertsen has been responsible for the review. We would like to thank the NMFA for excellent cooperation throughout the review period.

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## 1. Executive summary

This review of Norwegian support to business development projects in the Western Balkans provides information and knowledge regarding the outcome and effects of six projects implemented in the period from 2004 to 2017. The review assesses if and to what extent the intervention by the NMFA, including financial and competence resources invested, has led to results intended and desired by the NMFA and its partners. It also investigates whether results are sustainable following donor exit from the projects, and identifies success criteria for conducting business development projects of this kind.

It is the assessment of Oxford Research that the approach chosen by the NMFA has been effective and has produced substantial results. The NMFA has contributed a total of 122,91 MNOK to the projects, being the single donor for five of the projects and the majority donor for one project. As a result of the projects, six business development centres have been established. These centres function as relatively sustainable and permanent instruments of business development, and will continue to produce results in the time to come. The centres are generally regarded as successes in their regions, in contrast to several similar but failed attempts, funded by other donors, to establish incubators. This underscores the appropriateness of the approach chosen by the NMFA and implemented by the selected project managers.

The centres provide business incubation and other services supporting business development in the regions where they are located. In total, the centres so far have contributed to the creation of close to 2000 jobs, predominantly within the ICT-sector. The development, functioning and output of the centres also constitutes optimistic and hopeful narratives, which address the underlying challenge of brain drain from the Western Balkan.

### 1.1 RELEVANCE

The matter of relevance addresses the link between the problems and needs which legitimize the public intervention, and the activities and objects of the intervention. To be relevant the intervention must be able to create a new situation where needs have been met and problems dealt with. The intervention must be the “appropriate medicine” that reduces problems and accommodates needs.

Based on the challenges for business development found in the Western Balkans, the Norwegian strategy has been to support the development of independent and sustainable incubators. The appropriateness of incubators is explained by a context regarded as highly challenging for entrepreneurs. The Norwegian support is especially targeted to meet challenges such as lack of entrepreneurship culture and international business knowledge, negative economic development followed by extreme unemployment rate among youths, little faith in future opportunities and few relevant jobs for highly educated youths.

In particular, the Western Balkans suffers from brain drain of key persons, such as young, highly educated people, leaving the Balkans for work, achieve stable and increased salaries and realise opportunities for career progression and promotion. Establishing incubators is one strategy to tempt creative and well-educated young people to stay in the Western Balkans to develop their own companies

## 1.2 IMPACT

The impact of projects relates to the changes which can be attributed to the public intervention, that is, changes which would not have occurred without the intervention. Impact was expected to occur on two levels for the six projects. The projects should have impact on SMEs and new enterprises, and also by establishing an incubator or business park as an instrument of business development. The primary objective of the centres is to provide services which lead to the creation and growth of companies, thereby making jobs available primarily for young, educated people. Several of the centres have close links to local universities, and contribute to make university curriculum more relevant to business and entrepreneurship.

The centres have provided training sessions with a total number of close to 13 thousand people. In total, the centres have assisted 468 new companies, most of which have been located in the centres' incubators. As of October 2017, the centres host companies with a total number of 740 employees. 244 companies have left the incubator. The majority of these have graduated from the incubator, in the sense that they have stayed the maximum period, have grown in size, and/or have matured in competence, and have therefore left the incubator and moved to other premises.

The objective of the centres is to function as resources for entrepreneurs and start-up companies in their respective regions. The centres provide incubation services, though with variations scope and depth. As a part of this they generally provide office space and mercantile services, informal training courses, grant schemes and match-making between companies. These services may also be available for companies outside the incubator. A key feature of the centres is the provision of incubator services for selected entrepreneurs and start-up companies. Incubation entails various forms of support, including business knowledge and finance.

The centres generally target specific sectors, in particular ICT. In addition, there is a focus on young entrepreneurs, in particular start-up companies with international market potential. The majority of people in the start-up companies have attended universities or other institutions of higher education.

## 1.3 SUSTAINABILITY

Sustainability relates, in this context, primarily to the continued existence of the business development infrastructure established and maintained, in the project period, by donor funding. The main objective of each of the six projects was to establish a business development centre, which would be sustainable and would continue to exist as an instrument for economic growth in the years following donor exit, either as a self-sustain entity or by local funding.

The projects in themselves can be labelled successful, as they all achieved the main objectives of establishing a business development centre. In total, the six centres have a staff of 36 people, functioning as development resources for entrepreneurs and start-up companies in their respective regions. Staff turnover have been relatively modest, which is favourable for sustainability.

The projects' exit strategies largely revolved around securing access to and control over a functional building in which the centres could operate, establishing organisational integrity, operational procedures and local anchoring of the centres, and ensuring appropriate competence and values in centre management.

The projects worked to include local authorities as supporters of the centres, while simultaneously securing the organisational and operational integrity. A crucial task for all projects was to build transparent institutions with set selection criteria based on merits, which would often be ignored in the prevailing culture of the Western Balkans. The six projects funded by the NMFA shows it is necessary to have Norwegian control of the projects, including the position as project manager and the board of directors. This control is necessary to withstand local pressure and customs for ignoring merit based procedures for hiring staff and selecting tenants.

A key feature of all centres, and a criterion of success, seems to be the socialisation and training of centre staff into an operating mode focused on securing the integrity of the centre as an instrument for business development. This is essential, given that the centres operate in a culture influenced by nepotism and petty corruption. The centres provide tenants with protection from corruption, as they are independent from political parties and authorities.

The sustainability of the centres depends on an income structure supporting the core business of the centre, which is providing knowledge and other resources required for business development and subsequent job creation. The centres deliver a service to a specific target group, which is characterised by the lack of ability to pay for such services, at least at full cost. Hence, the centres are required to raise funding for the basic operation of the centre.

Local authorities provide the buildings used by several of the centres, and support the centres by offering these buildings rent free or at favourable terms. In some instances, public institutions also provide basic funding. Achieving continuing basic funding from local, regional or national authorities is challenging or impossible for many of the centres, hence centres must usually pursue other sources of financing.

The centres also rely on income from renting office space and providing training for tenants and companies outside of the centre, and to a variable degree on project funding, for their operation and sustainability.

## 1.4 KEY TAKE-OUTS

Oxford Research presents several lessons learned from carrying out the projects funded by the NMFA, and from the centres which was established as a result of the projects. Oxford Research recommends that these lessons are taken under consideration in the event that the NMFA decides to support similar projects in the future:

- **Norwegian project manager possessing complete authority**  
Within the framework of the overall objective of the project, it is necessary for the project manager to have complete authority of budget, activities and priorities. This involves the ability to make

changes in the project plan, and the absence of disturbing influence by partners not committed to the objective and working principles of the project.

- **Local anchoring of centre**

Local anchoring of the centres is important for securing resources, both directly in the form of basic funding and subsidised access to buildings, and indirectly in the form of goodwill, branding and marketing, etc. Oxford Research recommends a continued focus on efforts to ensure adequate local anchoring of business development projects and the centres which are subsequently established.

- **Training of management staff in relevant business development strategies**

To be able to function as proper mechanisms for economic growth and development, it is imperative to install appropriate competence in the centres being established. The management staff in the centres all seems to adhere to principles of management and business development advocated by Norwegian and European partners.

- **Funding structure – economic sustainability**

The main objective of the projects has been to establish business centres as permanent and sustainable instruments of business development. This demands a viable funding structure which allows for the ability to focus on key activities. Basic funding from local or regional authorities entails access to finances which gives both predictability and manoeuvrability.

- **Strengthen expertise on business development**

All the six centres provide consultancy on business development, but it is challenging to assess the extent and quality of this assistance. In the opinion of Oxford Research, the real value of centres and incubators originate from the knowledge and competence of management staff and external experts connected to the centre and made available as resources for the start-up companies. Oxford Research recommends increased attention on this aspect.

- **Acceleration programmes**

The centres in general seem to offer little in the terms of post-incubation or acceleration programs, which are instruments for expanding new companies following the initial phase, and may give a substantial return on investment. The NMFA may seek to strengthen existing centres by offering programmes for acceleration.



## 2. Short presentation of the six projects

This chapter provides a short description of the six projects or centres covered by this review. Each description includes information on project period and budget, key partners, target groups, services offered and funding sources.

### 2.1 BUSINESS INNOVATION AND TECHNOLOGY CENTRE IN TUZLA

The Business Innovation and Technology Centre (BIT Centre) in Tuzla opened in October 2005, as a result of a project funded by the NMFA. The project ran from 2004 to 2008, and had a budget of 23,75 MNOK. The origin of the centre was a combination of a local initiative and a Norad initiative (later transferred to the NMFA), where Tuzla was selected by the NMFA among several cities. Both Siva and Sintef were involved as project manager, following a tender procedure. Key stakeholders were Tuzla municipality and the University of Tuzla. Current the management staff consists of two people. The centre is funded by tenant fees, training, projects and basic funding from the municipality of Tuzla.

The BIT Centre was the first incubator and business development centre established by donor funding from the NMFA. The centre targets young, potential entrepreneurs with business ideas, young established companies and well-established companies, within the ICT-related business sectors. The centre offers office space, grants, professional help to finance, marketing, accounting and law, incubation and match-making internationally. It also hosts ICT training centre and ICT research centre. In general, it is focused on providing benefits for entrepreneurs and companies located inside the centre.

The BIT Centre constitutes the key institution for business development and incubation in the Tuzla region, and is well known in both government circles and the community as such. It has expanded gradually over the years, and now possesses five buildings with a total of 200 employees inside its walls. The centre cooperates closely with the University of Tuzla, from which it recruits most tenants.

### 2.2 YOUTH ENTREPRENEURIAL SERVICES IN SKOPJE

The Youth Entrepreneurial Service Foundation Incubator (YES incubator) opened in 2007, and the project funded by the NMFA lasted from 2004 to 2009. It had a budget of 12 MNOK, of which the NMFA provided 8 MNOK and the Soros Foundation provided the remaining 4 MNOK. Project manager Sintef already cooperated with the YES Foundation on another project, and with the experience from the incubator in Tuzla initiated a similar project to establish an incubator in Skopje. Key stakeholders include the Foundation Open Society Macedonia, Ministry of Education and Science, Ministry of Economy, Economic Chamber of Macedonia and City of Skopje. Current staff consists of six people. The centre is funded by tenant fees, training and EU-projects.

The YES Foundation aims to stimulate economic development and job creation by strengthening skills and competence. Its field of operation is ICT development, with particular focus on youth and women entrepreneurship, and social entrepreneurship. It originally focused on providing training, and later established an incubator in addition. The centre offers a business incubator, training, business

support services and project development. All projects undertaken by YES serve to strengthen the incubator or address the core activity of the incubator.

### 2.3 MARITIME INNOVATION CENTRE SIBENIK

The project Maritime Innovation Centre Sibenik (MICS) was carried out from 2008 to 2012. It had a budget of 23,56 MNOK. The operative company CroNoMar was operational from January 2009. The project was originally to end in 2011, but was extended for one more year because the building for the centre was not ready. The iNavis Centre was operational in the summer 2012. It consists of three blocks, of which the iNavis Incubator is managed by CroNoMar (the two other blocks are operated by the University in Zagreb and the regional development agency, and are unrelated to the NMFA-funded project). Key stakeholders include Sintef (project owner, project manager early stage), Leiv Eiriksson Nyskaping (project manager later stage), Siva (expertise on incubation, conducted preliminary project, owner of CroNoMar early stage) and the City of Sibenik. Current staff of CroNoMar, including incubator staff, counts six people. The incubator is funded by tenant fees and revenues from CroNoMar, while CroNoMar is a commercial company which generates revenues from activities such as ship and product broking.

The main objective of the project was to establish long-term linkages between Croatian and Norwegian partners within maritime sector, to enhance commercial activities in Sibenik and elsewhere in Croatia. A total of about 75 ships are built in Croatia and delivered to Norwegian customers as a result of broking by CroNoMar. In addition, the project was to establish an innovation centre including a business incubator. Prior to establishment of the iNavis Centre, CroNoMar functioned as a virtual incubator. CroNoMar targets both start-ups and well-established companies within maritime, marine and energy sectors, and provides business development services including consultation and business development courses, networking and access to international markets.

### 2.4 INNOVATION CENTRE BANJA LUKA

Innovation Centre Banja Luka (ICBL) was established following a project carried out in the period from 2009 to 2012. The project had a budget of 18,6 MNOK. The project manager was Boost Global Innovation (former name Athene Prosjektledelse), while the preliminary project was handled by Siva. The project had a large number of stakeholders, including the Ministry of Science and Technology, City of Banja Luka, University of Banja Luka and the Republic Agency for small and medium sized enterprises. The centre is funded by tenant fees and training fees, generated projects, and basic funding from the Ministry of Science and Technology (Republic of Srpska) and the City of Banja Luka. ICBL has a staff of five people.

The objectives of ICBL are job creation, increased entrepreneurship, to serve as a catalyst for development of high-quality SMEs, to promote internationalisation, to generate highly skilled workforce and to contribute to information, knowledge and experience exchange within business community, and between R&D institutions, universities and business sector. The centre targets young, potential entrepreneurs, future oriented business sectors and internationally competitive companies, and provides incubation, entrepreneurial support and training, and technology transfer.

The project leading to the establishment of ICBL experienced some difficulties in its early stages, largely due to a large number of stakeholders, with different ambitions and unable to deliver on funding obligation. The project manager also lacked the desired control over budget and strategy. Still, the centre is today well-functioning, and is in the process of expanding its operation by adding new buildings.

## 2.5 INNOVATION CENTRE KOSOVO

Innovation Centre Kosovo (ICK) was established in 2012. The NMFA provided funding in the amount of 35 MNOK, for a project carried out from 2011 to 2014. Boost Global Innovation was commissioned as project manager following a tender procedure. Other key stakeholders were the Kosovo Association of Information and Communication Technology (STIKK) and Crimson Capital LLC. ICK has a total staff of ten people. The centre generates income from training and renting out office space, and depends on funding from international donors. The Norwegian Embassy provided funding in the period following project completion, and was also instrumental in securing continued donor funding for the ICK from the Swedish Ministry of Foreign Affairs.

The objectives of the centre are job creation within ICT and green energy sectors. It targets both start-ups and established companies with growth potential, and has a special focus on female entrepreneurship.

## 2.6 INTERA TECHNOLOGY PARK

The NMFA supported the project to establishing INTERA Technology Park, which was carried out in the period 2012-17. The budget of the project was 14 MNOK, and Boost Global Innovation was selected as project manager, following a tender procedure. The NMFA had initiated a project specifically for Mostar, and this initiative was merged with a private initiative in Mostar. INTERA has a staff of seven people. The centre generates income from training and renting out office space, and acquire project funding through EU- and bilateral programmes.

The objective of INTERA is to support regional economic development. It targets start-up companies within green sector, metal (light) and engineering, and in particular young, female and student entrepreneurs. The centre provides incubator services, knowledge transfer between businesses and academia, entrepreneurial training and assistance in internationalisation.

### 3. Lessons for future projects

This chapter contains the findings of the review regarding relevance, impact and sustainability of the six projects funded by the NMFA. It presents lessons Oxford Research believe have general validity for this kind of business development projects, as well as examples from the six projects as such.

#### 3.1 RELEVANCE

This section's aim is to elaborate the relevance of Norwegian support of business incubators in the Western Balkans. The question of relevance is a matter of doing the right things by asking whether the intervention is needed and relevant for stakeholders. The matter of relevance addresses the link between the problems and needs which legitimize the public intervention, and the activities and objects of the intervention. To be relevant the intervention must be able to create a new situation where needs have been met and problems dealt with. The intervention must be the "appropriate medicine" that reduces problems and accommodates needs. Thus, this chapter discuss the background, defined as the historic, economic and social context that explains the premises for development and growth through business establishment in the Western Balkan. White paper no. 36 (2016–2017) "*Veivalg i norsk utenriks- og sikkerhetspolitikk*"<sup>1</sup> page 27, sums up the Norwegian policy for development and maintenance of Norwegian support;

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“The government will double aid to the Western Balkans to support countries' reform programs, thus accelerating integration into the EU and NATO, which contribute to the countries' own objectives. Strengthening the law, cooperation and reconciliation between countries, developing sustainable economies and strengthening civil society, will still be areas of priority of Norwegian aid. We will also continue long traditions for defence and defence reform cooperation. Measures against religious radicalization will be devoted more attention.”

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Norway has contributed to the establishment of a total of six incubators and business parks in Bosnia and Herzegovina, Croatia, Macedonia, and Kosovo. Entrepreneurship, innovation, capital and knowledge development are key elements of incubators launched. The initiatives support entrepreneurship by offering services such as spacing, entrepreneurial training, TTOs (Technology Transfer Offices), internationalisation and cooperation. The incubators and business parks focus particularly on ICT, maritime sector, clean energy and the food sector. The four sectors are regarded as sectors with potentials for growth and possibilities for international business cooperation. Need for business development support is obviously present in the Western Balkans, but meet numerous challenges. It is generally accepted that lack of economic growth and development may cause conflict, hence Norway's

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<sup>1</sup> Meld. St. 36 (2016–2017) Melding til Stortinget Veivalg i norsk utenriks- og sikkerhetspolitikk. Det Kongelige Utenriksdepartement.

contribution to business development, innovation and job creation in the Western Balkans. Development of private businesses is linked to several policy areas including enterprise policy, public administration reform and infrastructure development.

Based on the challenges for business development found in the Western Balkans, the Norwegian strategy has been to support the development of independent and sustainable incubators. The appropriateness of incubators is explained by a context regarded as highly challenging for entrepreneurs. The description is mainly substantiated by data derived from the interviews with incubator managers, the Norwegian Embassies, and the Norwegian project managers. The three groups of informants had similar stories and common understanding regarding the incubators' context, that contribute to a narrative on Western Balkan economic and innovation development. During the interviews the informants express matching understanding of the socio-economic situation, perspectives on need for initiatives to renew existing businesses, to promote entrepreneurship and to strengthen start-ups in the Western Balkans. The informants argue that the Norwegian incubator support is of high significance to stimulate economic growth through business establishment. The Norwegian support is especially targeted to meet challenges such as;

- Lack of SME growth strategies and entrepreneurship culture and policy
- Lack of business networks and international business knowledge
- Negative economic development followed by extreme unemployment rate among youths
- Few relevant jobs for high-educated youths and brain drain of young people
- Conflicts among ethnic groups and little faith in future opportunities
- Corruption and weak political leadership both at a national, regional and local level
- Investing in the Western Balkans is associated with high financial risk

The Western Balkans has a long history as a socialistic federation. The Socialist Federal Republic of Yugoslavia (1945- 1992) was established by the constitutional republics and autonomous provinces of Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and Slovenia. The Federation was consistent with the Soviet Constitution. Yugoslavia broke the connections to Stalin and the Soviet Union in 1948 and continued as an independent socialistic federation. Yugoslavian business life was characterized by a predominating public sector controlled by the government. In practice, businesses were managed and controlled by the state, hence the workforce in general was concentrated in public sector. The industry consisted mainly of metalworking industry, automotive industry, automotive production, textile industry and agricultural industry. Large companies were often established in collaboration with universities. This way, policy strategies defined as planned economy has prevented the development of regional and personal entrepreneurial experience and knowledge.

By reforms introduced in the 1950s and -60s, the public controlled companies became more autonomous. Reforms triggered a slow process of change in production structures moving from planned economy to capitalism. Reforms introduced allowed public companies to increase employees' salaries, but the companies continued to be dependent on public support and could not go bankrupt. This situation contributed to a galloping inflation that passed 2700 percent in 1989. Despite reforms initiated, the development of new private business establishments continued to be weak, and private businesses remained small with limited growth.

The Balkan war started in 1992 and caused economic destruction. The federation split up and the republics became independent states. It is estimated that between 100 000 and 150 000 people died during the war, and that half the population had to leave their home. Important industrial towns and infrastructure for industrial production was destroyed, which resulted in persistent industry shut-down. After the war, industry was ruined and difficult to revitalise. The absence of industrial production made industrial knowledge stagnate, become fragmented and forgotten. Ergo, key competence for economic development disappeared. The six states had different approaches and roles within the 1990s conflicts, and different outcome. The six countries are the youngest nations in Europe, and the development of institutions has elapsed separately in the different nations and regions. Even though the war ended more than 20 years ago, the area is still characterized by conflicts between different ethnic groups, political instability and immature legislation. The countries struggle with rapid shifts in politic management and bureaucratic administrative positions. Unstable policy has resulted in low believe that politicians and bureaucrats are working to better population's social and economic well-being, both nationally, regionally and locally. Bosnia and Herzegovina are e.g. on the list of the forty most corrupted countries in the world, which is a huge barrier for foreign institutions to invest in Balkan business. People in general are less optimistic regarding access to secure jobs and increased social welfare.

To build well-functioning incubators, it is important that the incubators are developed independently of local public funds. This to avoid negative local influence on the incubator management. The Western Balkan is known for public bureaucracy and politicians who have a major influence in people's everyday lives. The countries do not have strategies for industrial development at a national level. There exist different strategies at a federal level, but the cantons in e.g. Bosnia lack regional white papers for business development. After 2003 there have not been introduced any regulations or legislative changes that makes it easier for entrepreneurs to establish firms. Business start-up processes face many barriers. To register a new firm, entrepreneurs must go through time-consuming procedures that imply increased costs to formally operate in the economy at a regular basis. Registration of new firms must e.g. be done by court. Even though the incubators target high tech start-ups and high-educated entrepreneurs, newly enrolled tenants lack knowhow regarding how to formally establish a company.

In addition to bureaucratic entrepreneurship processes, different nations and cantons have distinctive laws, political governmental routines and economic presumptions that influence entrepreneurship processes, which make the Balkan economy seem confusing and random for outsiders. Investing in the Western Balkans is therefore associated with high economic risk. Import is higher than export. Entrepreneurs in the Western Balkans lack both infrastructure to enter international markets and export knowledge. Thus, most production do not follow international standards, and entrepreneurs and producers of goods often lack systems for product and production documentation necessary to enter foreign markets.

The Socialistic federation production structure and culture is applicable today. Jobs in public sector are still more valued than jobs in private sectors among people, in many circles, in the Western Balkans. Today the Western Balkan struggle with limited culture and lack of motivation among the population to conduct innovative entrepreneurial and small business activities. These are values that are difficult to change. The socialistic cultural heritage influences young people to become educated for

jobs in public sectors. Based in the lack of entrepreneurial traditions and culture, the entrepreneurs' role as innovation drivers, job creators and growth promoters has not been recognized and understood as changemakers for Balkan economy. It is, in general, understood that to realise start-up initiatives, politicians and bureaucrats must be induced to secure progress in formalities regarding the establishment of the company. It is a widespread opinion that law-abiding entrepreneurs who become rich do not exist in the Western Balkan.

Young people tend to educate for jobs in public sector knowing that it's hard to get these jobs too. The unemployment rate in the Western Balkans are indisputable among the highest in Europe. Among youths in Kosovo, Macedonia and Bosnia-Herzegovina the unemployment rate counts more than 50 percent. In addition, women in general participate in working life only to a limited degree. Unemployment is high also for well-educated people. Challenging labour market access is followed by low average salaries. Compared to European salaries, Balkan salaries are low for both unskilled and skilled workers, and salaries are low in both private and public sector. In addition, salary payment is unstable. Employees cannot trust that they will be paid for all the working hours they accomplish. It is not uncommon, neither in public nor in private sector, to be paid e.g. seven out of twelve months a year. Even though employees within public sector must deal with lack of employee rights and unstable monthly salary, these jobs are nonetheless recognized as "safe jobs".

Employers, both within public and private sectors, are often promoting work milieus characterized by an authoritarian hierarchy. According to informants, vertical structures in the workplaces delay economic development and innovation processes and initiatives. Hierarchy prevents knowledge transfer among workers in various positions and with different but complementary qualifications. In strict hierarchical working environments, knowledge flow and knowledge sharing are difficult and creativity becomes prevented. Just as it is hard to get a job, it is easy to lose a job if you e.g. disagree too much with your bosses. Contradictory to Balkan companies in general, the six incubators are characterised with horizontal work lines that aim to stimulate close and creative relationships between management and employees.

Based on the described situation of Balkan working life, many young people leave the Western Balkans to realise improved job opportunities. The Western Balkans suffers from brain drain of key persons, such as young, well-educated people, leaving the Balkans to realise improved work opportunities, achieve stable and increased salaries and prospects for career progression and promotion. Establishing incubators is one strategy to tempt creative and well-educated young people to stay in the Western Balkans to develop their own companies, develop business ideas and start doing business internationally. This way incubators might be a tool to stimulate a capitalistic economy including an expansion of the number of private owned companies. The incubators have a role as a motivator for entrepreneurial attitude and acts. All the six incubators managements devote much effort convincing young people, especially highly educated people, that entrepreneurship is a fruitful alternative to build a business career elsewhere. The incubators target high-skilled tenants. At the incubators, tenants meet other entrepreneurs and innovators in the same situation of realising business ideas. It is generally accepted among business theorists and practitioners that incubators have positive co-location effects for businesses. Co-location stimulates knowledge flow and knowledge sharing. This way tenants become embraced within in an environment where they cultivate entrepreneurial knowledge and experience

by realising business ideas into constantly more mature products and services that might be sold at international markets.

The six incubators promote a high-tech focus when they recruit tenants. Five of the six incubators promote and engage businesses within the ICT sector, and one of the incubators stimulate business establishment within the maritime sector. Therefore, it is very likely that the tenants enrolled into the incubator program meet other entrepreneurs with similar business challenges. Thus, the potential for business knowledge transfer is high. The incubators offer both business and market network, access to training and courses, space and, in some of the incubators, small start-ups funds to support business establishment processes. This way the incubators strategy has contributed to an increased number of young people that are willing and motivated to become entrepreneurs.

During the socialist federation decades, entrepreneurship and SME education and training was not at the universities' agendas. The European R&D tradition for entrepreneurship, SME and small-scale production was not considered a subject of importance among academics. Parallel to the incubators work of encouraging graduates and talented students to become a part of the incubator program and activities, regional universities have gradually increased their focus on entrepreneurship. This focus is particularly driven by young academics. The universities in cities where incubators are located have gradually exposed more attention to small business entrepreneurship and included entrepreneurship as a subject into their curricula. Entrepreneurship training offered at the incubators are in general informal, while universities offers formal education. Within collaborations the two sectors have different focus of interests based in their distinct mission regarding entrepreneurship. Theory are learned at universities, and practicing entrepreneurship is done at the incubators. One key to succeed in building strong and fruitful cooperation between universities and incubators is to engage young academics. Young academics understand the importance of entrepreneurship for economic development and innovation and are motivated for horizontal structured and professional relationships. Some universities do include incubators' courses into their curriculum. Several incubators have managed to formalise academic cooperation by approaching young academics to create trust, network for information exchange and common platforms and strategies to encourage students becoming incubator tenants.

The narrative on the economic context and opportunities for entrepreneurial development in Western Balkans, indicates there are needs for business incubators to change a long-term negative and destructive development. Institutions developed in the Western Balkans represent barriers for entrepreneurship and entrepreneurial development. Dominating economic and industrial structure in the Western Balkans has in general little in common with a Nordic production model. A strengthen private business sector may lead to increased bilateral business cooperation. However, the Norwegian contribution is not meant to be permanent. Realizing a Nordic model by using incubators strategies might be a pragmatic entrance for coming start-ups and entrepreneurs in the Western Balkans to set up independent incubators and sustainable firms that might also work as gatekeepers to international markets.



## 3.2 IMPACT

The impact of projects relates to the changes which can be attributed to the public intervention, that is, changes which would not have occurred without the intervention. Impact was expected to occur on two levels for the six projects. The projects should have impact on SMEs and new enterprises, and also by establishing an incubator or business park as an instrument of business development.

The projects funded by the NMFA have resulted in the establishment of six business development centres, providing various services in support of entrepreneurs and start-up companies. The services entail the provision of resources, in the form of knowledge transfer, match-making, grants and office space, which enhance the possibility of developing the business idea or new business into an established, viable company.

### 3.2.1 Results

The primary objective of the centres is to provide services which lead to the creation and growth of companies, thereby making jobs available primarily for young, educated people. The table below shows number of people trained, number new companies assisted, number of employees in the centre, number of companies that have left the incubator and number of jobs created, for each centre and for the six centres combined.

*Table 1: Results from the six projects*

|              | Number of people trained | Number of new companies assisted | Number of employees in the centre | Number of companies that have left the incubator | Number of jobs created |
|--------------|--------------------------|----------------------------------|-----------------------------------|--|------------------------|
| Banja Luka   | 1 810                    | 79                               | 50                                | 35   | 258                    |
| Tuzla        | 6 000                    | 55                               | 200                               | 30   | 600                    |
| Mostar       | 1 456                    | 31                               | 250                               | 2  | 115                    |
| Sibenik      | 150                      | 30                               | 60                                | 14   | 70                     |
| Skopje       | 2 000                    | 150                              | 90                                | 75   | 300                    |
| Kosovo       | 1 554                    | 123                              | 90                                | 88   | 620                    |
| <b>Total</b> | <b>12 970</b>            | <b>468</b>                       | <b>740</b>                        | <b>244</b>                                       | <b>1 963</b>           |

Source: Oxford Research. Data collected from centres.

The centres have provided training sessions with a total number of close to 13 thousand people. Attendees include both people working in companies in the centre incubator and people employed in companies without any other involvement with the centre. As people may attend multiple training sessions, the number does not represent unique participants.

In total, the centres have assisted 468 new companies. Most of these have, for some duration, been located in the centres' incubators. As of October 2017, the centres host companies with a total number of 740 employees.

244 companies have left the incubators. The majority of these have graduated from the incubator, in the sense that they have stayed the maximum period, have grown in size, and/or have matured in competence, and have therefore left the incubator and moved to other premises. Some companies have been abolished, for various reasons, which is to be expected. The centres so far have contributed to the creation of close to 2000 jobs.

There are distinct differences between the centres regarding data for the various indicators. The differences are caused primarily by two factors; number of years the centres have been in operation and the profile or focus of the centres.

The projects funded by NMFA have had a project period of three to five years, and the centres have typically been established and become operational in the middle of this period. However, the year of project initiation varies between projects. The projects in Skopje and Tuzla commenced in 2004, and the centres have been operational for approximately ten and twelve years, respectively. At the other end of the scale, ICK have been operational for just five years and INTERA for an even shorter period.

While all centres provide training and incubation, there are distinct variations between them, which in turn is manifested in the results. The centre in Sibenik, in particular, distinguishes itself from the others, because it only to a small extent provides training and incubation services, which was added to the services of CroNoMar during the project. Given its number of years of operations, it has assisted and graduated relatively few new companies, and have created relatively few new jobs. The reason for this is the centre profile, where the incubation constitutes a small part of its total operations. CroNoMar creates business collaboration between Norwegian and Croatian companies, through networking and match-making. Most of the collaboration is within shipbuilding, which has secured and maintained a minimum of one hundred work places in shipyards in Sibenik and other places along the Croatian coast. The business collaboration facilitated by CroNoMar has generated more than 50 million Euro in revenues for Croatia.

The centres also host and participate in a large number of events targeting entrepreneurs and start-up companies. These are meeting places where entrepreneurs meet, receiving both knowledge, network and inspiration. Centre management is well connected to European Union initiatives for business development, and frequently participates in conferences outside Western Balkans. As a result, the centres have initiated various schemes and concepts, such as Global Entrepreneurship Week and Start-up weekend, in their own locations.

Several of the centres have close links to local universities, and contribute to make university curriculum more relevant to business and entrepreneurship. For instance, BIT Tuzla targets students at the University of Tuzla, and the centre is closely linked to the Faculty of Electrical Engineering. The collaboration has strengthened gradually over the years. A business development centre such as BIT Centre and a university inherently has diverging objectives and logics. The cooperation is reported to be excellent from about 2012, illustrating the fact that it takes time to align the two types of institutions. A substantial number of incubator tenants are recruited from the university, and surveys reveal that more than 80 per cent of students at the most relevant departments wish to work within the BIT Centre. The centre has caused applications to this faculty to increase, as it became evident it was an

attractive career opportunity. The BIT Centre provides an opportunity to create an interesting and profitable career in Tuzla, and has contributed to the return of people from abroad.

### 3.2.2 Activities in centres

The objective of the centres is to function as resources for entrepreneurs and start-up companies in their respective regions. The centres provide incubation services, though with variations scope and depth. As a part of this they generally provide office space and mercantile services, informal training courses, grant schemes and match-making between companies. These services may also be available for companies outside the incubator.

A key feature of the centres is the provision of incubator services for selected entrepreneurs and start-up companies. Incubation entails various forms of support, including business knowledge and finance. Consultancy and knowledge may be provided by the centre management or by external experts or mentors with specific knowledge or business experience. The knowledge sharing may be structured, as in participating in a training session, or informal, as in having management staff answer tenants' questions ("door-way consultancy"). Tenants also benefit from being located together with other start-up companies, and having the opportunity to learn from each other.

The YES incubator reports there is little request for mentor services from its tenants, because this is regarded as formal and too rigid. The incubator staff is experienced in revealing and understanding the needs of start-up companies, and may consult them themselves or refer them to experts outside the incubator. The incubator staff may use tools as Business Model Canvas or similar in the individual guidance of companies.

The centres generally, at least to some extent, provide pre-incubation, in-house incubation and virtual incubation. In-house incubation, or just "incubation", entails office space as tenant in the incubator building, while virtual incubation refers to assistance to companies not located in the building, while still receiving consultancy and other forms of support from the centre. Virtual incubation may also be provided in some form for companies which have graduated from the incubator, while still being able to receive limited guidance services upon request. CroNoMar offered only virtual incubation from its establishment in 2009, until the centre building was ready for use in 2012.

Pre-incubation entails some sort of qualifying period before being accepted for regular incubation. The terms may be used loosely, or there may be specific rights and obligations to the various statuses, regulated by signed contracts. In addition, the centres to some degree assist established companies, which need assistance and consultation regarding its development. For instance, international companies may wish to establish an office in the city where one of the centres is located, and may receive assistance in this endeavour.

Selection of "teams" (persons with business idea, but not formally established company) or companies for pre-incubation, incubation or virtual incubation is typically done by open calls. The applicant will describe its business idea, resources and requirements in a written application, and possibly present it for a selection committee. Usually there will be a dialogue between the applicant and the centre, upon which the applicant may revise its application. Key selection criteria are the committee's perception

of the feasibility and commercial potential of the business idea, as well as the perception of the applicant's ability to realise the idea. In other words, the business idea must have the ability to succeed, and the entrepreneur must be willing and able to take the necessary steps to make this a reality.

Several of the centres have waiting lists containing teams or start-up companies which are qualified for admission to the incubator. The inflow of applications and high-quality business ideas and start-up companies is reportedly sufficient to secure the desired level of quality in the centres. Some of the centres, such as ICBL, seek to expand their premises to be able to accept and assist more teams and companies. The centre in Skopje emphasises the importance of having some available office space in the centre, should highly interesting opportunities emerge.

INTERA has assigned specific programs for each form of incubation, or is in the process of doing so. INTERA has open calls for pre-incubation twice a year, where teams may apply. About a dozen teams are selected following a presentation at the centre. The pre-incubation period lasts for three to six months. During this period, the teams are provided training in plenary sessions as well as individual guidance from centre staff and mentoring by external experts, recruited from established companies on a pro bono basis. The structure for regular incubation is under development. However, incubation requires formal establishment of a company, and entails access to office space and mercantile services at reduced cost (greatest reduction first year), as well as consultancy from centre staff. The maximum time a company may stay in the incubator is three years, although some flexibility may be shown.

CroNoMar, on the other hand, does not enforce strict rules for length of stay, due to the understanding that new companies need more than for instance three years to be ready to stand on their own. So far, five years upon opening the iNavis building, no company has been required to leave the incubator due to graduation, although some companies have exited for other reasons.

Companies will leave the incubator upon graduation, that is, when it has stayed the maximum period of time as incubator company and it has received the services which comes with being an incubator company. The maximum period is usually two or three years, although the incubators will make individual adjustments for each company. It is understood that the start-up company at the point of graduation is expected to be adequately matured and ready to operate on regular, commercial terms. In some centres, selected companies are allowed to remain in the centre, in other offices or buildings than those reserved for incubator companies. This requires availability of such offices.

Some tenants leave the incubator because the company fails. Incubators work with immature business ideas and are supposed to take risks; hence it is expected that a share of incubator companies fail.

Both BIT Centre and INTERA have designated buildings or offices for graduated companies or other mature companies, where such companies may rent office space on commercial terms. BIT Centre reports that only one out of 30 graduated companies have failed, thus can show a very good company survival rate following exit from incubator. The centre maintain contact with graduated companies, either as tenants in their buildings assigned for mature companies, or through networks. This benefits the new start-up companies in the centre, as they may consult and learn from the mature companies.

The centres generally target specific sectors, in particular ICT, which is the case in Banja Luka, Tuzla, Skopje and Kosovo. INTERA targets entrepreneurs within the green sector, metal (light) and engineering, while CroNoMar targets maritime, marine and energy sectors. In addition, there is generally a focus on young entrepreneurs, in particular start-up companies with international market potential. The majority of people in the start-up companies have attended universities or other institutions of higher education.

The centres provide office space for incubator tenants as well as, in some cases, graduates from the incubator or other mature companies. BIT Centre have five buildings at its disposal, and is therefore able to assign buildings to specific purposes. Two of the buildings are available for graduated companies as well as other companies, based on commercial levels of rent.

Providing training courses is an aspect of all the centres. Courses are often offered following a specific demand among incubator tenants, and will address specific needs. Training services may be purchased by providers located within or outside the centre, and may be offered to entrepreneurs located both within and outside the centre.

Most of the centres offer some form of grants for their tenants. There are limitations to the application of grants, and centres will often purchase the required service or product on behalf of the tenant receiving the grant. While some centres still operate grant schemes, others (INTERA, i.e.) have terminated this offer when the available resources have been distributed. CroNoMar does not offer a grant scheme as such, but has assisted in purchasing equipment deemed critical to the development of tenant companies. The YES incubator does not operate a grant scheme either, but is occasionally able to provide financial support to incubator companies through specific projects generated by the YES Foundation.

Several of the centres focus on international match-making, that is, connecting the start-up company to another company located outside the country. The purpose of match-making differs with each instance, and may involve access to finance, complementary competence for innovation purposes, access to markets, etc. The emphasises of match-making varies between centres, based on the potential of the start-ups in the centre. In some instances, this service is provided by other institutions in the local, regional or national ecosystem of business development institutions, which would make it superfluous for the centre to have match-making as part of its services.

CroNoMar negotiates contracts between Norwegian purchasers and Croatian manufacturers or service providers. Some of the service providers are located in the incubator. The major product is ship-building, contracted by Norwegian shipowners and built in Sibenik (and elsewhere in Croatia). Other services include services from engineers, architects and designers. CroNoMar is successful in filling roles which are lacking in the Croatian society. Trust level is low, and Croatian companies are unable to receive loans from the banks, creating a lack of liquidity in the economy. CroNoMar is an intermediate institution between banks and production companies, as well as between production companies and contractors. CroNoMar formally takes the part as financier, supplier and broker, handling contracts and taking legal responsibility. CroNoMar takes on several roles to ensure there exists a complete value chain.

### 3.3 SUSTAINABILITY

Sustainability relates, in this context, primarily to the continued existence of the business development infrastructure established and maintained, in the project period, by donor funding. The main objective of each of the six projects was to establish a business development centre, which would be sustainable and would continue to exist as an instrument for economic growth in the years following donor exit, either as a self-sustain entity or by local funding. The projects had a duration of three to five years. The project in Tuzla was the first of the six projects to be completed (2008), and the project in Mostar the last to be completed (2017).

There is considerable variation in the amount of funding each project received from the NMFA. The project in Kosovo received 35 MNOK from the NMFA, while the project in Skopje received 8 MNOK. The latter, however, also received 4 MNOK from the Soros Foundation, being the only one of the six with a co-donor during the project period itself. The table below shows the project period and funding received by the NMFA for each of the projects. The total funding from the NMFA to the six projects was 122,91 MNOK.

*Table 2: Project period and funding amount for the six projects*

| Location     | Name of centre                                  | Project period | Funding (MNOK) |
|--------------|---|----------------|----------------|
| Banja Luka   | Innovation Centre Banja Luka - ICBL             | 2009-12        | 18,6           |
| Tuzla        | Business Innovation and Technology - BIT Centre | 2004-08        | 23,75          |
| Mostar       | INTERA Technology Park                          | 2012-17        | 14             |
| Sibenik      | iNavis Incubator / CroNoMar                     | 2008-12        | 23,56          |
| Skopje       | YES Foundation                                  | 2004-09        | 8              |
| Kosovo       | Innovation Centre Kosovo - ICK                  | 2011-14        | 35             |
| <b>Total</b> |   |                | <b>122,91</b>  |

Source: Norwegian Ministry of Foreign Affairs and reports from projects

#### 3.3.1 Status of centres

The projects in themselves can be labelled successful, as they all achieved the main objectives of establishing a business development centre. All centres are operative to this day, in contrast to many other initiatives (by institutions other than the NMFA) to establish similar centres or incubators.

The number of staff varies between two (BIT Centre) and ten (ICK), while the others have from five to seven staff. In total, the six centres have a staff of 36 people, functioning as development resources for entrepreneurs and start-up companies in their respective regions. Staff turnover have been relatively modest, which is favourable for sustainability. The two first centres to be established, BIT Centre and YES, have not had changes in the position of director.

**Table 3: Staff number for each of the six centres**

| Centre  | Staff number |
|---|--------------|
| Banja Luka  | 5            |
| Tuzla   | 2            |
| Mostar  | 7            |
| Sibenik   | 6            |
| Skopje  | 6            |
| Kosovo  | 10           |
| <b>Total</b>  | <b>36</b>    |
| Source: Oxford Research. Data collected from centres. |              |

Several of the centres have consolidated their position following donor exit. The BIT Centre in Tuzla has expanded its operations, and now use five buildings for its activities. The centre has acquired the position as the key institution for innovation and business development in the region, and has expanded its cooperation with the University of Tuzla. ICBL is also on the verge of expanding to more than one building. The YES Incubator in Skopje operates in an environment which constitutes many related institutions, and has taken a position in this ecosystem for business development.

### 3.3.2 Preparation for sustainability

The projects' exit strategies largely revolved around securing access to and control over a functional building in which the centres could operate, establishing organisational integrity, operational procedures and local anchoring of the centres, and ensuring appropriate competence and values in centre management.

The projects worked with local and regional authorities to secure their support for the centres, in the form of buildings, finances or good will in general. The buildings are important factors in the centres' ability to function as instruments for innovation and growth, and much effort was given to this task in the projects. The solution for several of the centres was refurbishment or rebuilding, funded by the NMFA, of old buildings owned by the municipality, and subsequent long-term leases of the building to the centre without charging rent. This was the case in Tuzla, Skopje and Sibenik. In Banja Luka, the ICBL was forced to change building following donor exit, still local authorities support the centre by providing premises at favourable terms. In Mostar and Kosovo, the buildings of the centres are privately owned. ICK rents premises at commercial terms, which has proven to be a continuing challenge and a budgetary strain.

The projects worked to include local authorities as supporters of the centres, while simultaneously securing the organisational and operational integrity. A crucial task for all projects was to build transparent institutions with set selection criteria based on merits, which would often be ignored in the prevailing culture of the Western Balkans. The six projects funded by the NMFA shows it is necessary to have Norwegian control of the projects, including the position as project manager and the board of directors. This control is necessary to withstand local pressure and customs for ignoring merit based procedures for hiring staff and selecting tenants.

In Tuzla, an organisation consisting of a foundation and a company owned by the municipality was chosen. The foundation protects the resources in the centre, including from the municipality, and enables the centre to apply for EU-projects, while the company owned by the municipality facilitates transfer of funding from the municipality to the centre.

The project in Banja Luka experienced challenges in the early stages, due to the involvement of a large number of local stakeholders and, as a consequence, lack of ability to make progress. The local partners had ambitions and priorities for the project, which diverged from those of the project manager, and was also unable to secure local co-funding. This illustrates the necessity for budgetary control by the project manager, and the need to be flexible within the overall objective of the project.

A key feature of all centres, and a criterion of success, seems to be the socialisation and training of centre staff into an operating mode focused on securing the integrity of the centre as an instrument for business development. This is essential, given that the centres operate in a culture influenced by nepotism and petty corruption. The centres provide tenants with protection from corruption, as they are independent from political parties and authorities.

The “relative position” of the six centres in their local community differs, largely due to the degree of existence of other institutions in the ecosystem for business development. All centres seem to have considerably political, and to an extent public, attention. However, some centres have taken a position of gravitation point, as the key institution for business development in their region. This is certainly the case of BIT Centre. The centre has a prominent position, with a strong link to the university, and in itself constitutes the business development ecosystem for the Tuzla-region.

The YES incubator in Skopje has become a key institution within the fields of ICT, design and creative industry, as well as for entrepreneurship in general, in its region. The centre has taken a wider position in the entrepreneurship eco-system in Skopje and Macedonia, and does not restrict its operations to the centre building itself. The YES centre is a driving force for entrepreneurship in Skopje, and cooperates and connects in a larger eco-system in the city. This brings information to the centre, which is also in the position of influencing the larger eco-system. The other five centres are not connected to a larger innovation system to the same degree.

### 3.3.3 Income structure

The sustainability of the centres depends on an income structure supporting the core business of the centre, which is providing knowledge and other resources required for business development and subsequent job creation. The centres deliver a service to a specific target group, which is characterised by the lack of ability to pay for such services, at least at full cost. Hence, the centres are required to raise funding for the basic operation of the centre.

Local authorities provide the buildings used by several of the centres, and support the centres by offering these buildings rent free or at favourable terms. This is the case for the centres in Tuzla, Banja Luke, Skopje and Sibenik. The two newest centres, in Mostar and Kosovo, have not subsidised access to buildings, and are located in privately owned buildings. INTERA is located in a building owned by the private stakeholder in the centre, hence, the centre and the building are closely linked together.



ICK, on the other hand, rents its premises on the private market, which proves to be a continuing challenge for the economy of the centre.

In some instances, public institutions also provide basic funding. Achieving continuing basic funding from local, regional or national authorities is challenging or impossible for many of the centres, hence centres must usually pursue other sources of financing. ICBL, however, receives funding from regional authorities. The incubator receives basic funding from the Ministry of Science and Technology (Republic of Srpska) and the City of Banja Luka, and this funding counts for about 30 to 35 percent of the annual budget. The BIT Centre in Tuzla also receives a contribution from local authorities, constituting approximately 10 to 20 percent of the annual budget. Both centres underline the importance of local support, while at the same time stressing the absolute necessity of centre control of its own strategies. The public institutions providing funding for ICBL and BIT Centre see results of their contribution and the activity of the centres, and does not interfere with the operation of the centres. The centres are non-political, and since the establishment of the centres there has not been any opening for political influence.

For some of the centres, basic funding provided by the municipality or regional authorities is not considered a realistic option, due to the overall financial situation and obligations of these public institutions. In Banja Luka and Tuzla, where public resources are regularly allocated to the operation of the centres, the funding is considered an investment, which is expected to yield results in the form of revenues for the municipality and/or region. INTERA is currently in dialog with government institutions with the purpose of attaining basic funding. The centre is expecting to receive such funding, though the time frame is uncertain.

The centres rely on income from renting office space and providing training for tenants and companies outside of the centre. Revenues from these services counts for a relatively small part of the centres total budgets, but may yield a surplus to the centre. The centres are also involved in event management, which may generate some revenues.

The centres to a variable degree depend on project funding for their operation and sustainability. There is a danger in pursuing this source of funding, as it may shift focus away from core business of the centre to whatever activities funding is available for. There seems to be a high degree of awareness of this threat among centre staff, which should lessen the danger. The major source of project funding is EU-programmes, and there also exists bilateral programmes which the centres may apply to. In many instances, it seems the centres can achieve project funding for activities that are at the core of their business, such as supporting female entrepreneurship or entrepreneurship in general. Centres state they are able to construct project proposals and receive funding for projects and tasks supporting core business.

The YES incubator is now financed in three equal parts by renting out office space, providing training for companies and generating EU-projects. EU-projects helps financing the centre, however, there have been voices emphasising the EU-project should support the centre as such, and not shift focus away from the core business of the centre. Incubation and EU-project became two distinct parts of the centre, and it was argued the centre should be restrictive regarding involvement in projects not relevant to the core business, which is incubation and supporting entrepreneurship.

ICK has income from rent and trainings, but is still heavily depending on continued donor funding, not least due to expenses related to the building, which is rented on the private market at commercial terms. It was obvious upon project completion that ICK would not be financially sustainable, in the sense of not relying on donor funding. Therefore, as part of the exit strategy, efforts were made by the project management and the Norwegian Embassy in Pristina to “transfer” the project to their Swedish counterparts. ICK could continue its development and operations with a new donor project. ICKs annual budget is financed by about 50 percent from the Swedish International Development Cooperation Agency (SIDA), 20 percent from other donors and generated projects, and 30 percent from tenant rent and training.

Contrary to the other centres, CroNoMar uses a financial model which generates a substantial surplus. The model is based on generating revenues from activities, where the centre produces activities such as ship and product broking. CroNoMar can generate income because, unlike the other centres, its customers (in Norway) are financially strong companies, and it takes part in contracts of considerable value. CroNoMar is the operator of the iNavis Incubator, under a contract running from 2012-19, and it partially subsidise the operation of the incubator with revenues from the activities as broker. If the contract is not renewed, CroNoMar may continue its activities as broker.

## 4. Key take-outs

The purpose of the six projects was to establish business centres as sustainable instruments for job creation by assisting start-ups and business development. This chapter contains several lessons learned from carrying out the projects funded by the NMFA, and from the centres which was established as a result of the projects. Oxford Research recommends that these lessons are taken under consideration in the event that the NMFA decides to support similar projects in the future.

### 4.1 NORWEGIAN PROJECT MANAGER POSSESSING COMPLETE AUTHORITY

To achieve the objectives of the business development projects, it was necessary for the project managers to possess complete authority of budget, activities and priorities, within the framework set by the project plan and the decisions made by the board of directors. The guiding principle for decision-making should be to achieve the overall objective of the project. This requires the ability and authority to make changes in the project plan, as developments and experiences reveal alternative and preferable steps toward achieving project objectives. It also requires the absence of stakeholders, project partners and board members inclined to emphasise other factors and principles than those set forward in the project plan. A number of similar projects in the region are reported to have failed due to government intervention, lack of agreement among stakeholders, and lack of commitment to the overall objective stated in the project plan.

The project managers generally report it was a good experience to work with the NMFA, because the NMFA gave the project managers ample room to manoeuvre and was receptive to suggestions for adjustments.

### 4.2 LOCAL ANCHORING OF CENTRE

Local anchoring of the centres is important for securing resources, both directly in the form of basic funding and subsidised access to buildings, and indirectly in the form of goodwill, branding and marketing, etc. The centres in general have a good standing among local and regional public institutions, and are recognised as valuable instruments for supporting start-up companies and private sector development.

Oxford Research believes the anchoring and continuing support of the centres, even though altering political regimes, primarily may be ascribed to the specific results regarding business and job creation. In the involved countries and cities, there have been a large number of initiatives involving mechanisms for business development, including setting up business incubators. These initiatives have often been discontinued following donor exit, while the Norwegian funded centres distinguish themselves both as sustainable instruments and by yielding results which meets or surpass expectations of local authorities. The centres are widely recognised as the leading institutions and assets for job creation within the modern, knowledge-based private sector.

In addition, the municipality is typically involved in the centres, and was involved in the projects, to some extent, for instance as a member of the board. Oxford Research recommends a continued focus

on efforts to ensure adequate local anchoring of business development projects and the centres which are subsequently established.

### **4.3 TRAINING OF MANAGEMENT STAFF IN RELEVANT BUSINESS DEVELOPMENT STRATEGIES**

To be able to function as proper mechanisms for economic growth and development, it is imperative to install appropriate competence in the centres being established. The management staff in the centres all seems to adhere to principles of management and business development advocated by Norwegian and European partners. These partners possess considerable knowledge and experience on the subject. The management staff have received training in the concept and design of incubators and business parks, and are well familiar with the expectations to the centres. Knowledge concerns technical competence on business development, as well as methodological approaches such as manoeuvrability and responsibility of each member of the management.

The knowledge is transferred in many ways. Some management staff have previous experience with business development and are familiar with prevailing ideas regarding best practise. In addition, the Norwegian project managers represented leading institutions on incubation and business development, and could coach newly recruited staff in the latter half of the project periods, as staff was being employed. Several of the centres had, and still have, Norwegian experts serve on their Board of Directors. All current centre leaders were recruited prior to project completion and donor exit. Also, the recruited staff typically would be able to attend study tours to incubators and business parks in Norway, and could learn from centres already established in the Western Balkans. Following exit by the NMFA as donor, the centres are involved in EU-funded projects, which entails attending conferences and a continued access to knowledge sharing on best practise.

### **4.4 FUNDING STRUCTURE – ECONOMIC SUSTAINABILITY**

The main objective of the projects has been to establish business centres as permanent and sustainable instruments of business development, which will continue to produce results in the years to come. This demands a viable funding structure which allows for predictable operation and the ability to focus on key activities. Oxford Research argue it is necessary to secure income for the key activities of incubation and business development in a broader sense, which is tailored consultancy of individual entrepreneurs and start-up companies. Such activity can be expected to bring considerable added value for the receiver of the service.

At the same time, companies at this development stage cannot be expected to pay for this service. Tailored consultancy for entrepreneurs and start-ups is not a profitable service, hence must be financed by other means. Centres may possible generate revenue to be used for consultancy by renting out office space and providing training sessions, especially if they do not pay rent themselves for the centre buildings. In the same way, projects funded by EU or through bilateral programmes may allow for such services within their framework. Basic funding from local or regional authorities, or from foreign donors, is however a great asset as it entails access to finances which gives both predictability and manoeuvrability.

## 4.5 STRENGTHEN EXPERTISE ON BUSINESS DEVELOPMENT

All the six centres provide consultancy on business development, that is, individual guidance, mentoring and advising of the development of the company and its business idea. They, or at least most of them, also offers co-working facilities for companies uninterested in business counselling. It is, however, very challenging to assess the extent and quality of this assistance. While office space, training, grants and international match-making are important assets for a start-up company, strategic counselling related to the business model of individual companies may yield the greatest effects. The centres should not be merely business parks, here understood as mere co-location of start-up companies, with the addition of services such as generic training sessions and mercantile assistance.

In the opinion of Oxford Research, the real value of centres and incubators originate from the knowledge and competence of management staff and external experts connected to the centre and made available as resources for the start-up companies. Knowledge transfer and tailored guidance may assist new companies in making good decision regarding all aspects of business development, thereby aiding in sustaining and expanding the company. Oxford Research recommends increased attention on this aspect.

## 4.6 ACCELERATION PROGRAMMES

The centres in general seem to offer little in the terms of post-incubation, that is, assistance in the phase following incubation, where the company is deemed viable and ready to operate without incubator assistance. Still, there are variations between the centres regarding this service. Whereas some centres have a portfolio of established companies outside centre walls, or even offer counselling as well as office space in designated buildings, others point out that this aspect of assistance is lacking. Post-incubation or acceleration programs are instruments for expanding new companies following the initial phase, and may give a substantial return on investment. Hence, NMFA may fund new projects leading to establishment of business development centres, and/or seek to strengthen existing centres by offering programmes for acceleration.



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