



# **Review of the Business Incubator activity in Moldova**

## **I. Introduction**

## **II. The Global Context for Business Incubator Development**

## **III. The Moldovan Context for Business Incubator Development**

## **IV. USAID Objectives for Incubator Development under BIZPRO**

## **V. Information on the development of Business Incubators in Moldova**

## I. Introduction

Small businesses, particularly those engaged in value-added, technology-related activities, rather than large firms, are now perceived as being the main agents of job and wealth creation, producing more innovations, more jobs, more new developments, and adding more to economic growth than the equivalent amount of big businesses.

This perception is backed by factual evidence and the role of small business in the development of industrial economies is well documented. For example, Western Europe has 5.5 million small businesses employing over 70 million people – 70% of the workforce. Today, small business in Japan (firms with less than 300 employees) constitutes 72% of all manufacturing employment and 55% of value-added services. In the U.S., small firms with under 20 employees create about 50% of all new jobs and are also the major source of industrial innovation, producing half of all major innovations, and at a rate 24 times more efficient per research and development dollar than large corporations.

Experience in developed countries suggests that stable productivity and economic growth rates are produced in the long term through the combination of innovative entrepreneurship, i.e., new product development, and imitative-entrepreneurship, i.e., the adaptation of existing products for a broader market.

However, socio-political conditions in a number of developing countries have not been favorable even to imitative entrepreneurial behavior. Constraints on successful small business formation and development typically include:

- Absence of a “culture of entrepreneurship”
- Insufficient understanding of a market economy system
- Lack of information systems including technology, markets and production
- Lack of business experience, resulting in incipient entrepreneurial skills
- Lack of capital
- Unavailability of space for new ventures and other institutional support
- services
- Underdeveloped relationships between customers, suppliers and businesses
- Lack of government policy and legislation concerned with private sector development

The latter is particularly problematic since the success of programs and services directed towards overcoming the other above mentioned constraints depends largely on economic and industrial policy that acknowledges the relationship between entrepreneurship and economic development and an enabling environment that contributes to the creation of a more conducive entrepreneurial framework.

## **II. The Global Context for Business Incubator Development**

The business incubation industry is experiencing unprecedented growth worldwide. Today there are more than 900 business incubators in North America, up from 12 in 1980, and over 2,000 world-wide, an increase from 200 a decade ago.

Business incubators as we now know them came into being in the 1970s in the United States. According to the National Business Incubation Association, they evolved from three simultaneous movements. The first was the attempt to use old, abandoned factory buildings in economically distressed manufacturing areas of the U.S. by subdividing them for small firms; the second was begun as an experiment funded by the National Science Foundation to foster entrepreneurship and innovation at major universities. The third movement arose from initiatives of several successful individual entrepreneurs or groups of investors that sought to transfer their own new venture experiences to new companies in an environment conducive to successful technological innovation and commercialization.

Incubators got their first big impetus from the U.S. Small Business Administration, which strongly promoted incubator development from 1984 until 1987. It was as the result of this activity that incubator development grew from just over 20 openings annually in 1984 to more than 70 by 1987. A recent trend resulting predominantly from the “dot com” revolution has been the establishment of for-profit incubators which are opening in the U.S. at the rate of nearly four per week.

Incubators in the U.S. are now seven years old on average and reaching maturity. In contrast, those in industrializing countries are of even more recent origin. Their numbers are growing rapidly in China, Brazil, Turkey, South Korea, Taiwan and Indonesia as well as in many of the countries in transition to more open market systems. China has almost 200 incubators while Brazil about 100 and Poland can now boast of 36 Business Incubators, many of which are financially self-sufficient.

### **III. The Moldovan Context for Business Incubator Development**

Although Moldova has undertaken a variety of policy reform and legislative measures to help create a more supportive environment for private sector development, issues relating to commercial laws and regulations, access to capital, intellectual property, private property, market information, technological information, to name a few, continue to constrain not only enterprise development but enterprise support institutions, as well.

While many business services are in the private sector, the majority of enterprise support programs aimed at new and small businesses are delivered by so-called “third sector” institutions, most commonly non-governmental organizations (NGOs). In Moldova, a wide range of NGOs engaged in enterprise support activities, Business Incubators included, appear to be encountering a number of legal difficulties that constrain their ability to effectively and efficiently deliver services and achieve sustainability, including:

- An unclear legal framework for NGO operations, resulting in restrictions on generating fee-for-service revenues (a pre-requisite for not only curtailing enterprise dependency but achieving program sustainability) for fear of losing NGO legal status.
- Reluctance of local authorities to provide premises for NGO business support activities rent-free or at below-market rates due to government regulations controlling rents. (This also includes a regulation stipulating that space which has been rented by a legal entity -- NGO or profit-making -- cannot be sub-leased at a price greater than that which the Master Leasee pays to the building owner).
- Contradictions and inconsistencies in tax codes and the interpretation of tax privileges for NGOs which allow tax inspectors to make their own interpretations.
- Cumbersome licensing and registration procedures for NGOs wishing to engage in specific types of economic activity.

Additionally, NGOs are faced with other socio-economic constraints which impact their ability to deliver adequate services to clients or develop sustainable institutions to ensure program continuation, such as:

- Underdeveloped telecommunications resulting in a limited and inadequate number of telephone lines;
- Lack of access to or high cost of Internet services which is critical for obtaining low-cost information, specifically market and technology-related information;
- Cultural conditions such as suppressed entrepreneurialism and reluctance to share information;
- Underdeveloped co-operation structures among the business community, public authorities, and technology centers (e.g., universities and research institutes) in fields where co-operation is vital such as technology, design, processing, promotion, marketing, and market penetration;

- Skepticism about motivations of NGO service providers. resulting in low demand for essential business development services such as strategy formulation and implementation;
- Lack of clients who can afford to pay for services; and
- Lack of financial resources to establish enterprise support programs and attract and retain qualified staff for service delivery.

In the difficult socio-political-economic contexts of Moldova, NGOs providing entrepreneurship support not only are faced with the arduous task of overcoming the above mentioned obstacles in order to help small business develop and grow, but they also must assume a particularly “proactive” role in the education of the community and public authorities with respect to the contributions that the private sector can make and the importance of creating a more conducive entrepreneurial framework.

#### **IV. USAID Objectives for Incubator Development under BIZPRO**

In the Request for Proposal for the BIZPRO activity, USAID's stated criteria for selecting Business Incubators for support under the BIZPRO activity include:

- Incubator projects which are initiated and operated by local organizations that meet the criteria for selection and funding to develop local Incubators.
- Incubator projects whose goals, objectives and activities include the identification of promising start-up businesses that have good potential for growth and the provision of a location and services to enhance their prospects for growth.
- Incubator projects which can demonstrate strong support for their programs through up-front financial and in-kind support from local governments, private foundations, private companies and other domestic sources.
- Incubator projects which have the potential to conform to international "best practices" in Business Incubator development and Business Incubation.

As a first step towards developing an Incubator program that will be cost-effective and which meets the above mentioned criteria, BIZPRO undertook a review of Moldovan Business Incubators.

## **V. Information on the development of Business Incubators in Moldova**

The primary purpose of the review of Business Incubator in Moldova, particularly Business Incubators which have been initiated by local organizations, was to :

- Gather information regarding their current level of development (physically, pragmatically and financially).
- Better understand the environment in which they are operating including developmental constraints and opportunities for expansion;
- Assess the technical assistance and financial needs of the Business Incubator in order to formulate a strategy for BIZPRO collaboration through a competitive grants program.

Business Incubators as a new form of small business support are at the initiation stage. A general research showed that formally in Moldova there are two Business Incubators: Regional Business Incubator “Impuls” organized under the Chamber of Commerce and Industry from Balti and Business Incubator “Eliri-Inc” S.A.

### **Business Incubator “Impuls”**

Chamber of Commerce and Industry, Balti affiliate.

Address: 20B, 31 August str., Balti municipality

Tel. 29154, 29155, 27097, 22067, 22069, 28378;

Fax 29154

e-mail: [cci\\_publ@mdl.net](mailto:cci_publ@mdl.net)

The Business Incubator started the activity in May 22, 2001.

The purpose- to assure favorable conditions for initiation and development of enterprises oriented to production and services based on new technologies and to develop new priority branches in the District.

The project is oriented to the support of physical persons with concrete ideas; competent in the field and decided to create own businesses and enterprises.

Providing essential facilities and practical help BIB “Impuls” will contribute directly and indirectly to the development of small business, combating unemployment and promotion of new technologies.

The concept of BIB “Impuls” is based on the experience of countries which in the conditions of crisis paid a separate attention to the creation of conditions necessary to the development of small business. As example we may take Germany, Hungary, Turkey and Poland- countries where such kinds of centers activate successfully.

Facilities:

- Juridical consultations and practical support in registering the enterprise,
- Offices, production areas and warehouses with a territory of 10-60 m<sup>2</sup> for a period of 18 months, with a discount of 50% in comparison with the municipal fee.

- Infrastructure (heating system, electricity, telephone, fax, e-mail, photocopy machine, security, sanitary services),
- Consulting in management, marketing, accounting, law (50% discounts);
- Translations (25% discounts);
- Conference room

*Financing and management of the business incubator. Step I* According to the elaborated strategy, the financing of the building repairing on a territory of 750 m<sup>2</sup> was covered from 3 sources: 20% by the Chamber of Commerce and Industry, Balti affiliate, 80% funds from local or foreign donors. The total sum constituted 650000MDL.

For the second step- the activity of BI, which started on May 22, 2001, the financing comes again from 3 sources. Economic agents located on the territory of the BI will cover 40% of costs (payment for rent and used services), 20% will be covered by the BI team through providing services to the economic agents of the district (consulting, training, translations etc). In order to cover the 250,0 thousand lei needed for buying necessary equipment and technical means to BI, as well as coverage of the 40 % for the first two years of activity will be necessary to apply to International Programs. The necessary sum for equipping the BI and its two years activity (2001-2003) constitutes 700,0 thousand lei. The project is implemented by the Balti affiliate of the Chamber of Commerce and Industry, which according to the Law Nr.393 from May 13, 1999 is an independent, autonomous NGO. The activity of the Chamber of Commerce and Industry is coordinated and supervised by the Council of the Chamber.

The development of the Project:

The project started by organization of a special course with duration of 40 hours on the topic "Management of one's own business". At the course participated 18 persons. In parallel there were selected on a tender base 4 persons-the management team of the business incubator. Then after passing special tests there were selected and placed in the BI 6 economic agents: Ltd "Lumea" Saptiala", Ltd "Sinergie", COA "Manager Club", NGO "Societatea germana "Renastere", representative of "SES" society (Bonn, Germany), independent publication "Accent provincial". During May-September with the participation of the mentioned above firms and including other economic agents in the BI were organized following seminars: "The problem of promotion export activities", "The role of World Organization of Commerce in promotion of the Republic of Moldova. Solving economical disputes within the World Organization of Commerce", presentations: Moldavian-Italian Company "Calme" Ltd (32 persons), German society "Renastere" (35 persons). There were opened courses of studying computer skills (12 persons). More than 50 entrepreneurs applied to the services of the leading team of BI.

In present is preparing the course on the topic "Management of one's own business" planned for October 8-12. After the course will finish the empty spaces will be filled with another 6 economic agents selected on tender base. The potential participants in the project are newly created private firms or firms which plan to activate in priority fields of economy of the district and will use advanced technologies. Under this condition they will beneficiate of special conditions provided by the project. In such a way the most

difficult period in the activity of these firms will pass without any possible mistakes. Later these enterprises will serve as example and will have a strong impact on the development of private initiative in the district.

The essence of the information mentioned above is that the participating firms will benefit from support and facilities during a period of 18 months. After the expiration of the given term, the firms will be able to activate by themselves and will leave the BI to give place to other firms. In such a way the process will become on-going, having an influence in the process of small business development and will contribute directly to the reduction of unemployment in the district

**Business Incubator “Eliri-Inc” SA**

Address: MD 2068, Republic of Moldova,  
Chisinau, 6 M.Costin str.  
Tel. (3732) 441372, 442243, 735257  
Fax. (3732) 494195  
e-mail [bad@mdl.net](mailto:bad@mdl.net)

Municipality of Chisinau created the business incubator “Eliti-Inc” in December 2000 Its co-founders are the Municipality of Chisinau, AGEPI, and Technical University of Moldova, ELIRI, Moldova-Agroindbank, Ruchim.

“ELIRI-INC” was created on the basis of Scientific and Research Institute “ELIRI”, which has:

- engineering and laboratory building (5000m<sup>2</sup>) and premises for experimental production (1200 m<sup>2</sup>);
- technological equipment for production and control (more than 1000 units) of equipment, construction devices and radio electronics;
- departments of engineering supply (standardization, metrology, information) on the production of different profiles;
- infrastructure (energy supply, heating supply, water supply and sewerage, ventilation, telephone network).

Main objectives of the incubator are:

- assistance in the development of the small and medium businesses according to the priorities of social and economic development ;
- creation of new working places;
- increasing production and services
- assistance to entrepreneurs-beginners in the organization of their own businesses (different organizational forms);
- providing different services on privileged conditions to entrepreneurs;
- providing engineering and administrative supply to entrepreneurs-beginners in the start up period of activity (1-2 years),
- Assistance in the elaboration of innovative projects and organization of small (medium) enterprises on the basis of intellectual property of applicants.

The incubator has created a Council, which assesses business ideas and recommends proposals, which can be developed into perspective business.

Persons, accepted in the business incubator, have to go through some short-term courses of management, marketing, accounting and reporting, business planning, PC usage etc. After termination of study courses the candidate is obliged to make a business plan for his project with the help of Incubators' specialists.

The analysis of the business idea is one of the last phases of acceptance in the Incubator. Then the incubation agreement is signed with the applicant. According to the Lease Agreement, at moderate price are given: office premises, equipment, telephone network, computer, consultations, library, internet etc.

There are two necessary conditions that should be obligatory followed in the Incubator:

- the idea will be related to production
- and will have an innovative business character.

Newly created enterprise is registered according to the rule established by the law.

The support is considered for the period of two years. The created enterprises are planned to be located on the premises of "ELIRI". Presently there are 9 small enterprises working on its territory. From November, on the leased premises, the small enterprise "Compulectron" will start working. The Business Incubator, with the help of Mayor's office, has started projecting a new enterprise on the production of ecologically pure materials for plants' defense and medical forms on the basis of uglon. The construction of this enterprise will be done on the land, leased by the business incubator from the Mayor's office.

The business-incubator has the possibility to create on the territory of "ELIRI" up to 20 small enterprises. The business incubator has agreements with Sigma, Micron and others, on the possibility of renting production premises and equipment for small and medium enterprises, created by BI. There are envisaged several models for extending the incubator's production premises. For the enterprises, which passed the incubation period, it will be possible to create technology parks, which are planned to be created on the basis of some enterprises of Chisinau (for example, Alfa).

A number of normative documents, regulating the activity of the Business Incubator were composed. The structure of staff is determined; there are collaboration agreements with consulting firms. The sources of financing and usage of financial resources are determined : incomes from commercial activities, privileges from the Mayors' office, donors, extra budgetary funds, Small Business Fund, international grants, sponsors etc., Up till now the mentioned sources do not finance the incubator, thing that stops the activity of BI: incubator's staff is not completed, the premises of "ELIRI" are not repaired, equipment is not purchased, and the incubator has no possibility to implement its functions.

Together with traditional support for small business development there are other specific approaches of assistance as for example virtual Business Incubators. Such kind of support for entrepreneurship is developed within the Industrial Park „Alfa”, which has a project of development of Business Incubator.

## **Industrial Park „Alfa”**

75 Alba Iulia str. mun. Chisinau, MD 2071

tel. (3732) 7475558, tel/fax (3732) 747804

e-mail:alfa@mdl.net

Potential of the park:

- non stop water and electricity supply
- utilities (water supply, natural gas, heating system, telecommunication, elevator, trash baskets etc.)
- standardization, patent and copyright services.
- possibilities to obtain technical documentation and equipment of the Industrial Park.
- exhibitions with sale of equipment and products.
- security services and fire protection system
- car parking, auto service, transportation services and shipping-unshipping services.
- marketing and advertising services.
- copying and printing services
- training on computer skills, access to Internet
- mantling and dismantling of equipment.

In present on the territory of the Industrial Park there are 107 residents with 2 244 working places, among which:

46- Production enterprises

24- Enterprises providing production services

17- Non- productive enterprises

20- Trade enterprises

18- Other kind of enterprises

### **Concept:**

The Business Incubator represents a structure (a subdivision of the Industrial Park) designed to eliminate the barriers (financial, legal, and bureaucratic) appeared in the course of creation and development of a productive and efficient business, with the help of the potential of the intern human resources, as well as through the network of exterior established relationships.

Business Incubators are also called Industrial Centers (production centers), which unite entrepreneurs –beginners who want to start their own businesses.

Business Incubators are programs of assistance in business, with the purpose of creation of a firm which does not have experience. The small businesses located in Incubators receive assistance in business and technical assistance through the intern experience and the network of integrated resources.

### **Objectives:**

- Support in the development of small and medium business;

- Creation of conditions necessary for entrepreneurs beginners;
- Contribution to the formation and development of new enterprises ;
- Implementation of new ideas and technologies in production enterprises;
- Development of the infrastructure of the local market;
- Contribution to the development of technical and scientific progress;
- Direct participation in the development of priority branches of national economy, etc.

### **The role:**

- Intermediary in the establishment of relationships with potential business partners and other organizations.
- Assures an environment which offers support to young companies during the critical period of starting up process.
- Support in solving of administrative and legal problems of the start-up process.
- Offering necessary information to the entrepreneurs.
- Preparing and accompanying negotiations with financial institutions or other type of organizations.

*Perspective of creation of a BI as a component structure of the Industrial Park „Alfa”.*

The model of Industrial Park presupposes the fulfillment of a smaller number of tasks than the classic model. The peculiarity that makes different this project consist in the development of some activities by the administration of the Park, specific to the Incubator such as: offering space, providing utilities, telecommunications, heating system etc. In other words, the resident companies beneficiate of the whole set of services for improving the start up conditions of development of their own enterprises.

In such a way the activity of the center will be oriented to:

- training and consulting activities,
- tools of business management,
- finances and investments,
- research and implementation of innovations and new technologies.

### **Location:**

The Business Incubator of the Industrial Park “Alfa” will be a separate place of the Industrial Park where the companies and entrepreneurs will have the possibility to develop their new ideas.

It is presupposed to locate this structure in the building 8A of the industrial complex. This building has an area of ~3,3 thousand m<sup>2</sup>, divided in 4 floors. The building faces the exterior side of the territory, thing that offers free access for visitors.

The perspective of successful implementation of the project for Business Incubator is supported by a lot of factors such as:

- Excellent location
- Presence of high qualified labor force
- Relatively new buildings

- Presence of infrastructure: the territory is gasified, the system of water supply is renovated, autonomous heating system, communication networks, telecommunications and roads;
- Possibility of zone extension;
- Presence of assistance and serving system for investors;

As advantages in realization of this project may be considered:

- the localization in the Industrial Park of an educational institution,
- consulting and training companies,
- bank institution;
- qualified human resources;

The importance of creation of a Business Incubator is reflected by:

- possibilities of coordination of the allocated resources and orientation of the enterprises intellectual potential to the development of priority branches.
- concentration in one place of a big number of entrepreneurial structures, oriented to the production of goods at a high technological and competitive level.
- effective use of technical-scientific potential and its orientation to the development of private businesses;
- creation of new working places, especially for graduates of Universities;