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## Press release

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For immediate release

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### **EU co-funded business incubators for start-ups: quality of infrastructure generally good, but performance lags behind in terms of support offered to their clients, say EU auditors**

**A report published today by the European Court of Auditors (ECA) reveals that the EU has made a significant financial contribution to the creation of business incubator infrastructure, particularly in Member States in which this type of business support is relatively rare. However, the performance of audited incubators was modest.**

“We consider that the provision of incubation services – and, consequently, the wider impact on local businesses – was rather limited, due to financial constraints and the low level of incubation activities”, **stated Mr Henri Grethen, the ECA Member responsible for the report**, “This was mainly because Member States and incubator managers lacked expertise concerning incubation practices. There were also shortcomings in management systems.”

**These less effective results may be explained by the insufficient use of good practices.** More specifically, too little attention had been paid to the effectiveness of incubators’ business support functions when incubators were being established. Secondly, incubation services were only loosely linked to clients’ business objectives. Thirdly, monitoring systems within the incubators had not provided adequate management information. Finally, incubators’ financial sustainability had conflicted with the objective of providing adequate incubation services.

At the EU Member State level, management systems did not pay sufficient attention to the operational activity of business incubators. In particular, the procedure for selecting incubators for co-funding had not given due consideration to several elements which are crucial for incubation activity such as staff qualifications, the scope and relevance of incubation services, and financial sustainability. Finally, the Commission did not take sufficient steps to facilitate the exchange of knowledge and good practices.

Small and medium-sized enterprises (SMEs) play an important role in the creation of growth and jobs. They are a core focus of the EU’s 2014-2020 Cohesion Policy, which aims to boost the competitiveness of EU regions through investments focusing on innovation. Business incubators aim to support the successful establishment and further development of start-up enterprises. As a result, the provision of support to SMEs has become an increasingly important political priority over the years. The amount of aid from the Structural Funds earmarked for the support of SMEs during the two last programming periods amounted to 23 billion euros and 15 billion euros respectively.

*The purpose of this press release is to give the main messages of the special report adopted by the European Court of Auditors.*

*The full report is on [www.eca.europa.eu](http://www.eca.europa.eu)*

## **ECA Press**

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**Notes to editors:**

European Court of Auditors (ECA) Special Reports are published throughout the year, presenting the results of selected audits of specific EU budgetary areas or management topics. This Special Report (No 7/2014), entitled “Has the ERDF successfully supported the development of business incubators?”, assessed whether business incubation facilities co-financed by the European Regional Development Fund (ERDF) had successfully supported high-potential start-up companies.

The EU auditors assessed whether ERDF co-funded incubators had effectively and efficiently supported the creation of SMEs with a high potential for growth, if the management bodies had selected appropriate incubators to receive support, and whether they had acted in a way which was conducive to the success of these incubators. They also assessed whether the Commission had taken appropriate action to maximise the impact of these incubators. Based on its observations and findings, the EU’s auditors recommend that the Commission should require Member States to make authorisation for the establishment of new incubators using EU co-funding dependent on the following considerations.

- Business incubators should be established on the basis of detailed and realistic business plans, paying particular attention to the sustainability of their non-profit incubation activity.
- From the outset, incubation activity should be carried out by suitably skilled staff who can provide relevant individual support to clients and potential future entrepreneurs.
- Incubators should actively seek and acquire new clients irrespective of their geographical origin, focusing on those with innovative business ideas with high growth potential in order to maximise the efficiency of public funding and therefore the value added by EU funds.
- The incubation process for each client company should start with the preparation of a detailed, tailor-made incubation programme. The implementation of this programme should be followed up, and the degree to which the business’s objectives have been achieved should be assessed.
- Incubators should offer their services to non-resident companies, thereby allowing incubation support to have a larger impact on the local business community and improving possibilities for networking.
- Incubators should set up a monitoring system based not only on the data obtained from their own activity, but also on business data produced by supported clients.

The Commission should also require Member State authorities to incorporate the following elements into the design of the procedures for selecting and supervising ERDF co-financed incubator projects.

- In the project selection criteria, greater emphasis should be placed on the expected results of the projects rather than on the delivery of physical outputs.
- During the project assessment process and when contractual obligations are being defined, more use should be made of expert knowledge of business incubation activities.
- The level of public financial support should be based on the defined results forecast for the incubator project. The value of ERDF payments should be linked to the results achieved by the incubator.
- The sustainability period should be adjusted to correspond to the actual life cycle of the business incubator assets co-financed by the ERDF.

Finally, the Commission should also take the following steps.

- It should update its knowledge concerning the effectiveness and efficiency of business incubation, and should apply this knowledge with a view to ensuring that ERDF support is well-adapted to the needs of the business incubation sector.
- It should resume its efforts to support the community of business incubators, particularly those in receipt of EU support, for instance by organising knowledge and experience exchange with responsible bodies in Member States. The initiative should target all business incubators, which could present their success stories, exchange knowledge and access peer support at European level.

A short video interview with the ECA Member responsible for the report is available at:  
<https://www.youtube.com/user/EUAuditorsECA>