EN 2014 NO 07

Special Report

# Has the ERDF successfully supported the development of business incubators?

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(pursuant to Article 287(4), second subparagraph, TFEU)

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# Glossary



**Client**: An entrepreneur or a company receiving assistance on the basis of a cooperation agreement with a business incubator. This assistance may take the form of facility rental and/or participation in business support activities.

**EBN**: European Business and Innovation Centre Network.

**EC-BIC incubator**: An incubator which is a certified member of the European Business and Innovation Centre Network.

**ERDF**: European Regional Development Fund.

**High-growth potential company**: A company performing better, or expected to perform better, than its industry or the market as a whole.

**Incubation programme**: An individually tailored document describing planned events and actions for each individual start-up hosted in the incubator. The objective of the incubation programme is to establish business objectives for a client company and to define a range of targeted resources and services which would support its development. The implementation of the programme and the achievement of business goals are monitored using indicators.

**Networking**: A business activity which involves businesspeople and entrepreneurs establishing personal contacts and arranging business opportunities.

**Regional innovation strategy (RIS)**: A document defining regional priorities in a systematic and target-oriented manner, and addressing them using actions aimed at developing local innovation by academic and business organisations.

**Scouting activity**: Actively searching for clients and exploring potential markets.

**SMEs**: Small and medium-sized enterprises. This category comprises enterprises which employ fewer than 250 people and which have an annual turnover of less than 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.

**Spin-off**: An independent company created when a division or a part of an existing company or organisation splits off and becomes a separate entity.

**Start-up**: A newly created company or a partnership which is carrying out the initial development of its product or service and conducting market research.

**Virtual incubation**: A scheme which allows a company to benefit from an incubator's support without actually being located on the incubator's premises.

# Executive summary



## I

Small and medium-sized enterprises (SMEs) play an important role in the creation of growth and jobs. 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 and 15 billion euro respectively. Business incubators aim to support the successful establishment and further development of start-up enterprises.

## II

The main objective of the audit was to assess whether business incubation facilities co-financed by the European Regional Development Fund (ERDF) had successfully supported high-potential start-up companies. The audit team carried out an on-the-spot audit of a sample of incubators in four Member States. It also visited managing authorities in these Member States, and carried out a benchmarking exercise on an extended sample including incubators in two additional Member States.

## III

The Court concludes that the ERDF has made a significant financial contribution to the creation of business incubator infrastructure, particularly in Member States in which this type of business support was relatively rare. However, the performance of audited incubators was modest.

## IV

The disappointing results delivered by the audited incubators can be explained by the fact that established good practices had only been applied to a limited extent. 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 did not provide adequate management information. Finally, concerns about financial sustainability had hampered incubation activity.

## V

At the level of the managing authority, management systems were too focused on output and 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. In most cases, the expected benefits for the regional economy had not been evaluated.

## VI

Although the Commission has made some effort to obtain knowledge about the activities and characteristics of business incubators in Europe, the support which it has offered cannot be considered to be adequate. The Commission’s activities to promote incubators and good practices were too limited to mitigate the risk of failure for inexperienced and immature co-financed incubators.

## VII

The Court makes the following recommendations.

Firstly, the Commission should require Member States to make authorisation for the establishment of new incubators using EU co-funding dependent on the following considerations:

(a) 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.

(b) 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.

(c) Incubators should proactively 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.

(d) 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.

(e) 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.

(f) 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.

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

(g) 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.

(h) During the project assessment process and when contractual obligations are being defined, more use should be made of expert knowledge of business incubation activities.

(i) The level of public 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.

(j) The sustainability period should be adjusted to correspond to the actual life cycle of the business incubator assets co-financed by the ERDF.

Thirdly, the Commission should:

(k) 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;

(l) resume its efforts to support the community of business incubators, and in particular 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.

# Introduction



## Why are business incubators important?

**01**
Small and medium-sized enterprises (SMEs) play an important role in the creation of growth and jobs. It is estimated that, as a whole, Europe's 20,7 million SMEs account for 67 % of total employment and 58 %[1] of gross value added[2]. As a result, the provision of support to SMEs has become an increasingly important European political priority over the years. The Lisbon strategy paid particular importance to the SME sector. Later, the Europe 2020 strategy attached great weight to the importance of SMEs and innovation for the European Union economy and the key role they play in achieving smart, sustainable and inclusive growth.

**02**
Business incubators aim to provide broad and intensive support to young businesses. This support is most needed at the beginning of a company's life cycle, when it is most at risk of failure. The Court's definition of a business incubator is provided in ***Box 1***.

**03**
Published research suggests that SMEs which have received incubation support are significantly less likely to fail during the first few years after their establishment. The general 3-year survival rate of new companies is around 56 %[3], whereas the rate for companies which have been assisted by business incubators is around 90 %[4].

**04**
The incubation process is most effective if it is individually tailored to the specific needs of the entrepreneur. The scope, variety and intensity of support depends on various factors. In general, though, it varies according to the stage of the assisted company in its life cycle (e.g. establishment, expansion), the market sector it operates in (e.g. information and communication technology, biotechnology) and the type of business which it is (e.g. start-up, spin-off).[5]

1 Ecorys, *EU SMEs in 2012: at the crossroads*, European Commission, September 2012 (http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/annual-report_en.pdf).

2 Gross value added is the value of products and services produced minus the cost of all inputs and raw materials that are directly attributable to that production.

3 Eurostat: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Business_demography_statistics

4 The European Business and Innovation Centre Network (EBN) stated that the survival rate of companies during the incubation period was 92 %; the survival rate in the 3 years following graduation was 90 %. 'BIC Observatory 2012©' report (http://www.ebn.be/assets/assets/pdf/2012/bic_obs_2012.pdf). UK Business Incubation Ltd reported a survival rate of 98 % during the incubation period, and of 87 % after 5 years (http://www.ukbi.co.uk/resources/business-incubation.aspx). The US National Business Incubation Association reported that the 5-year survival rate was 87 %, (2012 State of the Business Incubation Industry).

5 See paragraph 14.

Box 1

### Definition of a business incubator

A business incubator is an organisation designed to support the successful establishment and further development of enterprises. It often offers access to physical business infrastructure, individually tailored business support services and networking opportunities.

Incubators vary in many ways, in particular in the scope of the incubation programmes they offer, in their internal organisation, in the economic sector they specialise in and in the types of clients they serve.

**05**

Three typical phases of incubation activity are identified in the European Commission's Smart Guide to Innovation-Based Incubators (IBI)[6]. Examples of activities performed at each stage are described in ***Chart 1***.

(a) Pre-incubation. This stage comprises activities aimed at supporting potential entrepreneurs in developing business ideas, business models and business plans. The objective is to increase the chance that the entrepreneurs will be able to create a business effectively, and proceed successfully to the start-up phase. Typical services provided at this stage include a first assessment of the business idea and individual guidance on all aspects of preparing a business plan.

(b) Incubation. This stage begins when the SME starts up, and ends at the moment when it becomes self-sustainable and prepared to operate independently on the free market. This stage lasts for around 3 years. During this time, the incubator offers access to finance, training and coaching for entrepreneurs, as well as to networks of potential business and technology partners, office space and, in some cases, access to fully equipped laboratories, workshops and prototyping facilities. Physical incubation (when companies are actually present in the incubator) is important in certain economic sectors (e.g. biotechnology and advanced materials). In some sectors, though, (e.g. software development), virtual incubation can also be an effective solution.

(c) Post-incubation. This stage comprises activities carried out when a company has reached operational and financial independence and is capable of continuing operations without external support. Various services may still be needed by the SME — for example, measures aimed at increasing its levels of sales, improving its productive processes using methods such as internationalisation, or introducing innovation.

6 European Commission, February 2010 (http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/innovation_incubator.pdf).

Chart 1

## Schematic representation of the three stages of the incubation process

| Pre-incubation | Incubation | Post-incubation |
|---|---|---|
| o Innovation assessment<br>o Business plan preparation<br>o Training | o Access to finance<br>o Coaching, mentoring and training<br>o Physical hosting, labs and workshops<br>o Commercialisation<br>o Advanced business planning<br>o Association of business partners | o Business development<br>o Internationalisation<br>o Clustering<br>o Networking |
| **Business idea** | **Start-up company** | **Substainable SME** |

*Source:* European Court of Auditors based on the 'Smart guide' published by the Commission.

## How does the European Regional Development Fund (ERDF) support business incubators?

06
Together with regional convergence and European territorial cooperation, increasing regional competitiveness and employment are the main objectives of the EU's cohesion policy. In practice, the Structural Funds and in particular the European Regional Development Fund (ERDF) are the main sources of EU funding for programmes supporting SMEs.

07
The Structural Funds are programmed and budgeted for a 7-year period. The total Structural Funds budget for the 2000–06 programming period was around 225 billion euro; for the 2007–13 period, the total budget was around 345 billion euro. The funds earmarked for the support of SMEs amounted to 23 billion and 15 billion euro respectively. There are no available figures on the amounts specifically dedicated to the development of business incubators.

08
The Structural Funds are subject to shared management. The Commission bears overall responsibility for managing the Structural Funds. It does so by assessing the operation of national management systems and approving operational programmes. Measures defined in operational programmes, notably the selection of projects, are implemented by bodies at Member State level.

09
For the purposes of this report, business incubator projects co-financed by the ERDF can be split into two distinct phases:

**Phase I: Establishment**
This phase begins when the grant agreement is signed. The project manager then begins to make plans for the construction (or refurbishment) of the facility and the purchase of the necessary equipment. It ends when the incubator is equipped, staffed, and physically ready for operation, and when the investment has been settled from a legal and a financial point of view. The incubator is then ready to admit its first tenants. This phase typically lasts for up to 2 years.

**Phase II: Operation**
This phase begins when the incubator's first clients are admitted and the incubation process starts; it lasts until the end of the sustainability period (in other words, until the moment from which the grant conditions no longer oblige the owner of the project to maintain project results or to keep assets for the purposes of incubation activity). In the case of the audited projects, this phase ended 5 years after the signature of the grant agreement, and normally lasted for around 3 years after the end of phase I.

# Audit scope and objectives



## 10

The main objective of the audit was to assess whether business incubator facilities co-financed by the ERDF had successfully supported start-ups with a high potential for growth. The Court asked the following three audit questions, each relating to a different level of management:

(a) Had beneficiaries applied good practices in establishing and operating incubators?

(b) Had the bodies responsible for managing the ERDF[7] put in place effective mechanisms for selecting appropriate incubators to receive support and ensuring their successful operation?

(c) Had the Commission taken appropriate action to maximise the impact of ERDF support on co-financed incubators?

## 11

The audit was carried out at the premises of the European Commission, and in the four Member States which had allocated the largest amounts of ERDF funding to the establishment of business incubators (the Czech Republic, Spain, Poland and the United Kingdom). On the basis of an analysis of lists of projects (which was carried out due to the lack of official figures described in paragraph 7), the Court estimates that 1,2 billion euro in funding was allocated to actions contributing to the establishment of incubators in the four visited Member States in the 2000–13 period.

## 12

The Court performed an on-the-spot audit of a sample of 27 incubators (see ***Annex***) which had received ERDF support in the 2000–06 programming period, and which had been in continuous operation for at least 3 years. The Court examined all aspects of the incubators' operations, from the planning decisions upon which their construction had been based to the practices and procedures which they had in place. The average total cost of a single project was 6,1 million euro. Contributions from public funds covered an average of 82 % of this amount: 42 % of the average total cost was covered by the ERDF (a total of 70 million euro); the other 40 % was covered by the Member States.

## 13

The Court also assessed the management systems which had been implemented by the six managing authorities responsible for these 27 incubators. The assessment focused on the project selection process, on the grant agreement conditions and on how these conditions were subsequently monitored to ensure that contractual objectives were met.

## 14

The standards used as audit criteria are based on good practices described in the 'Smart guide' published by the European Commission, and in other literature which has been published on this topic[8].

7 e.g. managing authorities and intermediary bodies.

8 National Business Incubation Association, *Best practices in action — Guidelines for Implementing First-Class Business Incubation Programs*, 2nd Edition 2010.
European Commission, *Benchmarking of Business Incubators*, February 2002

# Audit scope and objectives

**15**
An integral part of the audit was a benchmarking exercise which collected key figures and indicators in order to assess the performance and efficiency of the operations of selected incubators which had received ERDF support. In total, 49 incubators[9] (see ***Annex***) in the four visited Member States as well as in Italy and Germany, two Member States which had also allocated significant amounts of EU co-funding to the operation of business incubators, submitted detailed information about their operational activity and financial situation.

**16**
The 49 ERDF co-funded incubators in the sample were compared with a benchmark based on the results achieved by the 65 EC-BIC certified incubators[10] which were members of the European Business and Innovation Centre Network (EBN)[11], and therefore applying best practice recognised by the Commission, in the six selected Member States. These 65 incubators are referred to in this report as the 'benchmarked incubators'.

**17**
Audit evidence was collected from interviews with Commission and Member State officials, as well as with project managers. Documents obtained from EU and national authorities and business incubators were also reviewed.

9 Incubators audited on the spot (21) as well as certain other ERDF co-funded incubators (28).

10 In order to be awarded with the EC-BIC trademark, an incubator must go through an accreditation process which ensures compliance with the EC-BIC label criteria.

11 The EBN is a European non-governmental association of around 200 incubators. It is the only organisation allowed to certify incubators with the EC-BIC label, which is recognised by the European Commission.

18
This section begins with an assessment of the performance of the audited incubators. It goes on to describe the observations arising from each one of the Court's three audit questions.

## The quality of infrastructure was generally good, but incubators' performance lagged behind

19
The Court assessed the performance of the audited ERDF co-funded incubators in terms of the process of constructing and equipping or refurbishing them (their output) and in terms of the results which they achieved. These two dimensions correspond approximately to the two phases of the implementation of an incubator project described in paragraph 9.

### In most cases, incubation facilities were well adapted and had been constructed and equipped as planned

20
The Court considers that physical incubator space is especially important for certain high-growth sectors (e.g. biotechnology, advanced materials) which depend on otherwise unaffordable equipment being available in the incubator. Incubators should be designed to provide a comfortable working and meeting space equipped with general-purpose office and communication equipment. It is also important to create shared leisure spaces to encourage tenants to integrate and to maximise the potential for collaboration and the free exchange of ideas.

Photograph

**ERDF co-financed 'Delta' building in the Wrocław Technology Park**

**In most cases, audited ERDF incubator projects offered well-adapted working conditions.**

*Source:* European Court of Auditors. Architect: Anna Kościuk.

## 21

The vast majority of the visited incubators were successfully offering attractive working spaces for their clients. The profile of audited facilities ranged from simple office buildings to fully equipped laboratories. In all, 23 out of 27 of them were offering working conditions which were adapted to the individual needs of hosted SMEs and encouraged collaboration. In the arrangement of their physical space, incubators had taken into account the importance of networking: they provided a leisure area for the use of hosted companies where spontaneous networking could occur.

## 22

The Court's assessment of this phase also covered the process of planning and constructing the audited facilities. All incubators had been built in accordance with their planning documentation, which in 23 out of 27 cases contained detailed information about the intended characteristics of the facility, and which established fixed construction schedules. Most of the incubators (23 out of 27) had been delivered in line with these plans; however, only 15 out of 27 of them had been completed in compliance with the deadlines set out in the project application.

## 23

The Court did not detect any major cost overruns, and 20 out of 27 projects had been completed within their planned budget. Cost overruns had been covered by applicants' own resources and had had no effect on the EU budget.

### Audited business incubators were comparatively less effective

## 24

The Court assessed the effectiveness and efficiency of incubator projects in phase II by measuring their operational activity and evaluating their outcomes in terms of their main objectives:

(a) the number of business plans created with incubator support;

(b) the number of start-ups incubated;

(c) the number of jobs created.

## 25

During the reference period, the average audited incubator helped to draw up 20 new business plans. This led to the creation of 15 start-ups and 27 new jobs. On average, 164 people were employed in each audited incubator over the reference period; however, start-ups accounted for only a small proportion of these.

26
The effectiveness of the benchmarked EC-BIC certified incubators, which were of a comparable size to the ones audited by the Court, was much higher. The average benchmarked incubator had helped to draw up 101 new business plans and assisted in the establishment of 65 new start-ups over the reference period; this had led to the creation of 147 new jobs. Support offered to businesses beyond the scope of physical incubation (i.e. the provision of pre-incubation and virtual incubation services to entrepreneurs) had contributed to this high start-up creation rate. The value of virtual incubation is demonstrated by the fact that the number of start-ups created by the audited incubators greatly exceeds the number of tenants in the incubators. Detailed data on the effectiveness of both groups of incubators is given in the ***Table***.

Table

## Average outcomes achieved by business incubators

**Audited ERDF incubators were comparatively less effective.**

| | Average across | |
|---|---|---|
| | **Audited ERDF incubators** | **Benchmarked incubators** |
| **Pre-incubation activity** | | |
| Enquiries about support | 92 | 738 |
| Business plans prepared | 20 | 101 |
| Enterprise creation projects | 19 | 91 |
| **Incubation activity** | | |
| Start-ups created (incl. non tenants) | 15 | 65 |
| Jobs created in start-ups | 27 | 147 |
| Jobs created per start-up | 1,8 | 2,3 |
| All tenants in incubator | 26 | 35 |
| People employed by all tenants | 164 | 166 |
| Employees per tenant | 6,4 | 4,7 |
| **Post-incubation activity** | | |
| Existing SMEs supported | 54 | 168 |
| Jobs created in SMEs in post-incubation | 20 | 49 |
| Jobs created per SME in post-incubation | 0,4 | 0,3 |

*Source:* ECA benchmarking data for 2011.

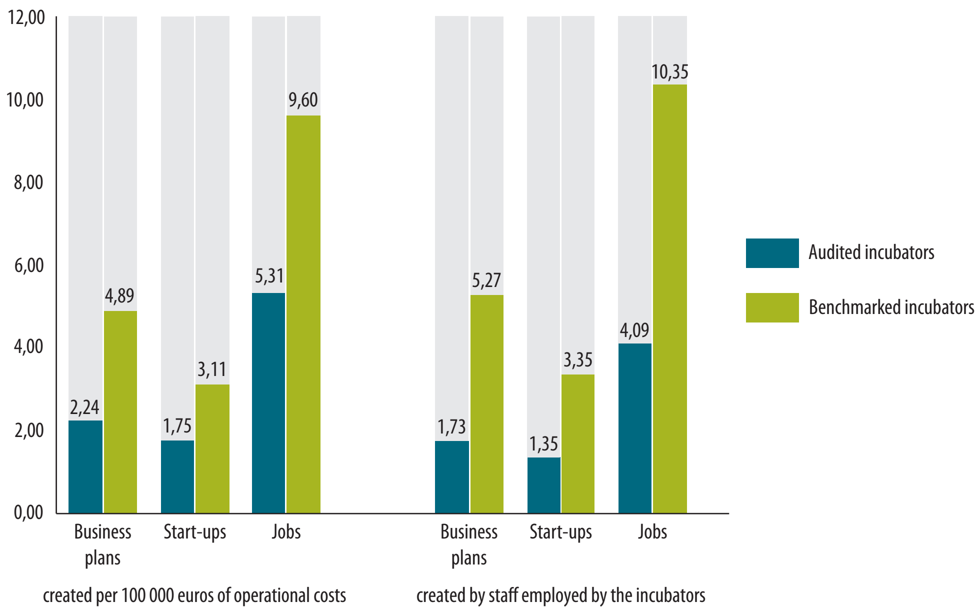
27
To assess efficiency, these results were then examined in the light of the level of resources which had been deployed (operations costs and staff employed). The outcome of this measurement was compared with the results achieved by the benchmarked EC-BIC incubators. Details are given in ***Chart 2*** below. As an example, the audited incubators generated an average of 5,3 jobs for each 100 000 euro of operational cost compared to 9,6 for benchmark incubators, which gives a cost of around 18 000 euro per job, compared to 10 400 euro in the benchmarked incubators.

There is a difference of a similar magnitude between the incubators audited by the Court and the EC-BIC incubators used as a benchmark in terms of the cost per business plan created and the cost per new business created. Similar conclusions can be drawn when the number of staff employed by the incubator is taken as a basis for the calculation.

Chart 2

## Efficiency of incubators' operations — results for 2011

**Audited business incubators were comparatively less efficient.**




*Source:* ECA benchmarking data for 2011.

## 28

Most of the audited ERDF incubators had commenced operations relatively recently, and this lack of experience undoubtedly hampered their efficiency. However, the magnitude of the difference between the two groups of incubators demonstrates the relative underperformance of the ERDF co-financed incubators audited by the Court. A discussion of the various possible reasons for this appears below, following the structure of the three audit questions asked in paragraph 10.

## Audited ERDF incubators had not made sufficient use of good practices

## 29

A business incubator is a complex system whose success depends on external factors such as the macroeconomic situation, the legal system in which the incubator operates and the entrepreneurial culture in the country in which the incubator is located. However, internal practices also affect an incubator's success.

## 30

Recognising this, the Court examined the quality and relevance of the practices and procedures of the audited incubators in four areas:

(a) their internal business planning;

(b) the relevance of the services provided to their clients;

(c) the systems they used for monitoring clients;

(d) and their business models.

### When business incubators were being established, too little attention had been paid to the effectiveness of their business support functions

## 31

The Court considers that a business incubator's mission and objectives should be clearly defined from the very beginning. Its future operations should be precisely outlined in a business plan. This plan should include information about the incubator's key business support activities, as well as details of the human and material resources needed for the incubator to successfully achieve its incubation goals. It should also include details of networking arrangements.

## 32

Although 22 out of 27 audited incubators had prepared a business plan in line with the formal obligations arising from legislation governing ERDF support[12], only half of them included details of their activity and result-oriented goals.

12 In the five other cases there was no legal obligation to develop a business plan.

33
An analysis of incubators' business planning documents revealed weaknesses affecting factors which are essential for the sound operation of a business incubator. Most commonly, descriptions of incubation programmes were missing; the resources to be assigned to incubation processes (e.g. qualified staff) had not been specified; or items of information on the cost of incubation activities were incomplete or missing. Without this essential information, it is not possible to make a reliable assessment of the future economic sustainability of any incubator.

34
Most of the numerous objectives included in the planning documents concerned the facilities of incubators themselves, rather than focusing on the activities which the incubator would actually carry out. Insufficient attention was thus paid to the importance and the results of incubation processes. This bias towards physical objectives (e.g. construction and equipment) gave undue prominence to the objectives of the construction phase (phase I) instead of concentrating on achieving the fundamental objectives of incubation activity (phase II).

## Incubation services were only loosely linked to clients' needs

35
The Court considers that the core activity of any business incubator is the provision of business support services to its clients. A wide range of services[13] can be offered to entrepreneurs; these include the rental of physical space; mentoring; training; consulting in various areas; networking; access to financing; and many other things. However, if results are to be delivered effectively, incubation support cannot be offered in the form of a simple list of available services. The most effective incubators apply an individual approach, providing a tailor-made incubation programme in combination with other entrepreneurial support initiatives (such as lectures given by invited speakers) aimed at preparing newly created SMEs to operate on the free market.

### Services offered

36
In the audited incubators, the support provided to hosted companies generally[14] took the form of subsidised office space (offered by 94 % of incubators). In addition to this, 'soft services' were also provided free of charge, or for a low fee. The most common were coaching, training courses and support in the areas of law, marketing, accounting and intellectual property rights.

13 The 'State of the business incubation industry' report produced by the United States National Business Incubation Association in 2006 identifies 33 distinct services which can be offered to client companies by business incubators.

14 Discounted rental costs were not usually offered in the United Kingdom.

37

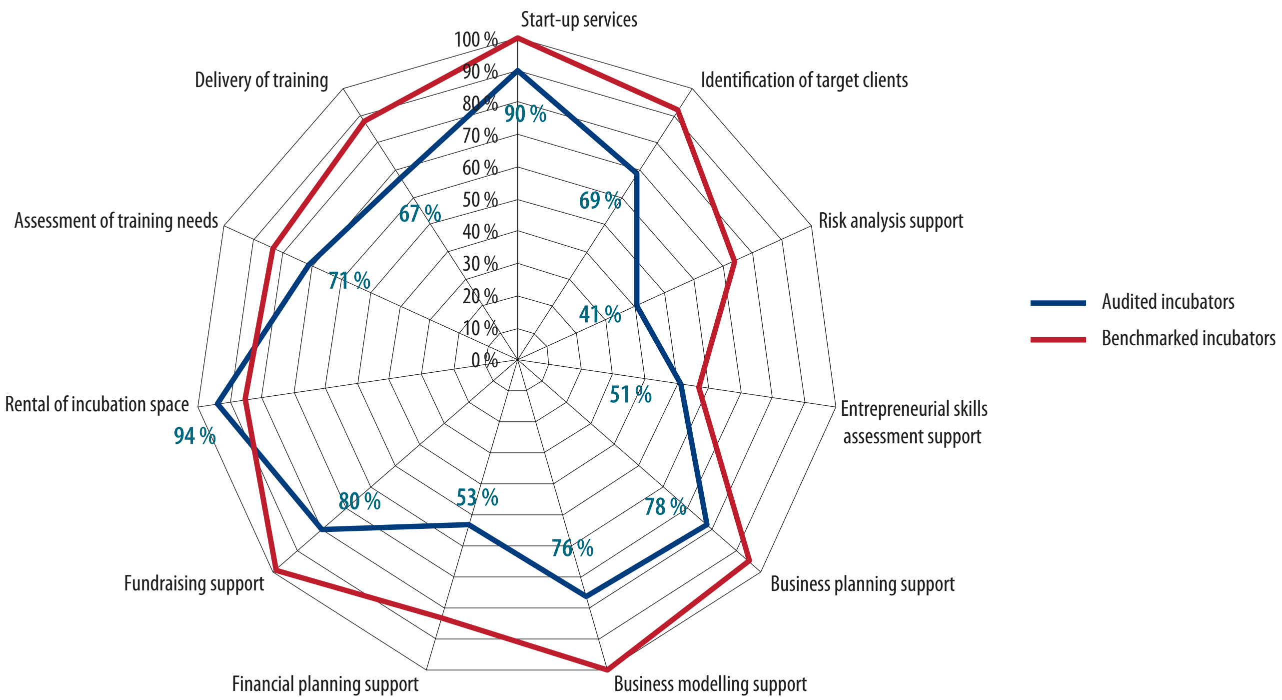
***Chart 3*** shows the range of services being offered by ERDF incubators audited by the Court in comparison with the range of relevant services offered by incubators in the benchmarked EC-BIC population. In particular, only 53 % of incubators were able to provide advice about financial planning and financing. This is a cause for concern: insufficient access to finance is recognised as a key barrier to the development of SMEs[15], and the lack of financial advice provided by incubators did not help to reduce this problem. This hampered clients' and potential clients' overall perception of how useful the support offered by incubators to hosted companies was.

15 'The SME financing gap, Volume I: Theory And Evidence', Organisation For Economic Cooperation and Development (http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=624).

Chart 3

## Type and frequency of principal services offered by audited ERDF incubators

**Audited ERDF incubators offer a more limited range of services.**




*Source:* ECA benchmarking data for 2011.

### Incubation programmes

**38**
During the audit, the Court observed that the relatively limited range of services offered by the audited incubators was a direct consequence of the approach they took to incubation. In general, ERDF co-financed incubators were not directly involved in the business development of their clients and were not actively working with hosted companies to identify and set business objectives for them. The incubators did not require hosted companies to collaborate closely with them in this way; for their own part, hosted companies often saw no benefit in sharing sensitive business data, and were therefore reluctant to do so.

**39**
Structured comprehensive incubation programmes involving intensive cooperation between incubators and their clients were scarce. Only 4 out of 27 audited incubators systematically drew up a comprehensive incubation programme together with each individual client, establishing specific performance and development objectives. Only 6 out of 27 audited incubators were subject to quality audits which aimed to improve the overall quality of incubation services.

**40**
This limited level of cooperation led to a sense of 'isolation' from the incubator, and also had a negative effect on the sense of community between tenants. This did not facilitate synergy between tenants.

### Staff skills

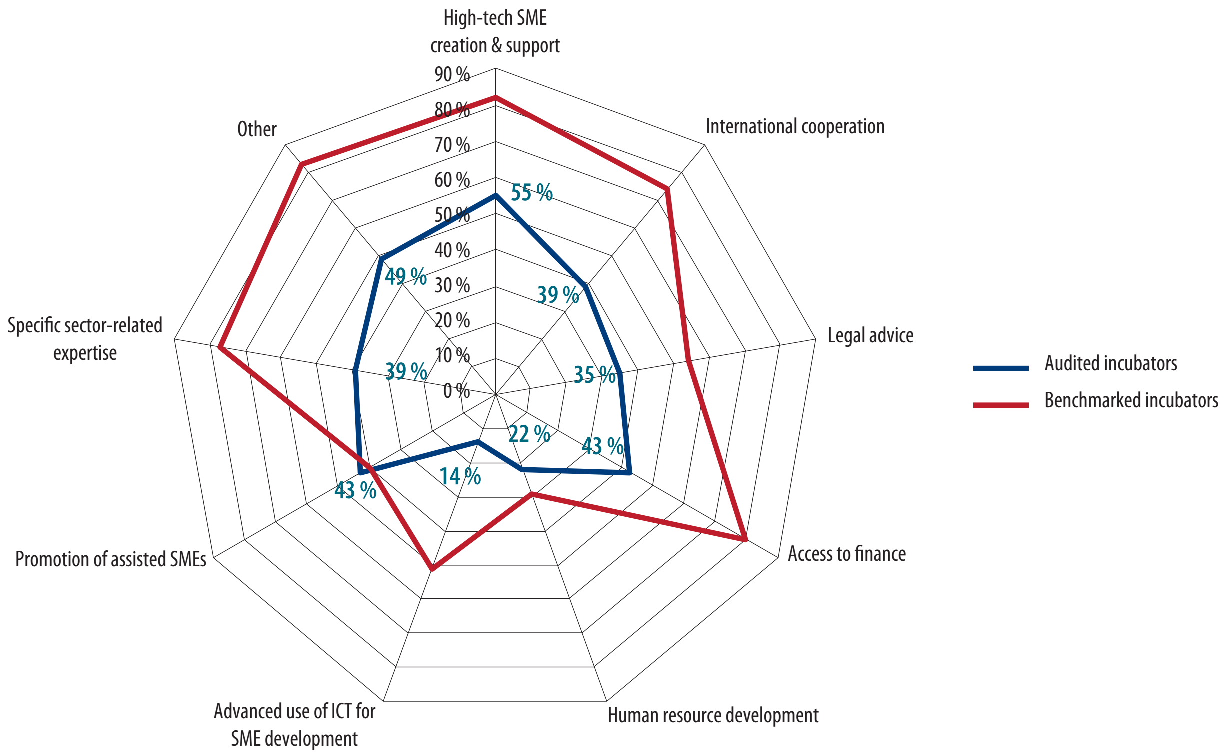
**41**
The absence of a culture of intensive cooperation between incubators and clients meant that there was no incentive for incubator staff to possess or to acquire specific skills and expertise which would allow them to assist hosted companies more effectively. The resulting lack of skills meant that incubator staff were unable to take steps to engage more effectively with hosted companies, creating a vicious circle. The range of skills and expertise possessed by incubator staff was less extensive in the audited incubators compared to the benchmarked incubators, as ***Chart 4*** shows.

**42**
In particular, relatively few members of staff who were engaged directly in business incubation activities possessed skills which allowed them to offer more specialised assistance to companies in areas such as specific sector-related expertise (39 %) or accessing financing possibilities (43 %).

Chart 4

## Comparison of main available staff skills and expertise

**The range of skills and expertise possessed by incubator staff was less extensive in the audited incubators.**




*Source:* ECA benchmarking data for 2011.

**43**
A further effect of this lack of cooperation was that incubators had only limited structured knowledge about the individual needs and achievements of the companies they hosted.

### Pre-incubation and virtual incubation

**44**
Weaknesses in programmes and low levels of engagement were also detected in two other important areas of incubator activity: pre-incubation support (see paragraph 5a) and virtual incubation (see paragraph 46). Both services are provided to prospective clients and to clients who are not necessarily physically located on the incubator's premises.

45
Providing intensive pre-incubation support to potential entrepreneurs is important. Firstly, it allows an incubator to develop a pool of prospective clients irrespective of their geographical origin. It also enhances the incubator's engagement with its local community. However, it requires a significant commitment of time by incubator staff. In all, 14 out of 27 audited incubators failed to offer it. The absence of this service was one of the reasons behind the low number of enquiries received by incubators, as the ***Table*** shows.

46
Virtual incubation refers to the provision of incubation programmes to clients who are not based on the incubator's premises. It is a service which increases the effectiveness of incubators (see paragraph 26). Interest in receiving this type of business support largely depends on the quality and effectiveness of incubation programmes. Weak incubation programmes (see paragraphs 38 and 39) and limitations in the range of services offered were two main reasons for the fact that only 11 out of 27 audited incubators provided virtual incubation to externally located clients.

### Networking and embedded incubators

47
The audited incubators had a good understanding of the need for networking and of the benefits which it brought. In all, 19 out of 27 of them had attempted to build up a network of connected stakeholders. Furthermore, almost all audited incubators had links with a recognised local partner, or were embedded within one. These partners included universities, business support organisations and public authorities. However, few incubators had successfully established a network which engaged all types of relevant stakeholders (e.g. universities, industry leaders and their own former client companies in the post-incubation stage).

48
Incubators should play an important role in each region's business support infrastructure. However, only 14 out of 27 incubators had been consulted at any point in the past during the preparation of regional innovation strategies. This low figure demonstrates indirectly that the value of incubators as important business support centres often fails to be recognised.

## Monitoring systems within the incubators did not provide adequate management information

**49**
The Court considers that a monitoring system should be established in each business incubator. This system should collect and record statistics and other relevant information about the activity of the incubator and its clients. The goal of gathering this information is to assess whether resources were invested effectively and efficiently, and whether they contributed towards achieving strategic objectives. These objectives can only be achieved when business data is obtained from the incubator's management system as well as from incubated companies in the form of standardised financial and activity indicators.

**50**
Only 15 out of 27 incubators had put in place a system whereby incubation activities were regularly observed and recorded. The collection of data in the remaining incubators was limited to the mandatory statistics required by accounting rules and tax regulations. Incubators were often unable to provide detailed financial data on the value of the aid granted to each of their clients. This makes it more difficult to properly assess their incubation activity. The practice of integrating data concerning clients' business activity with the incubator's monitoring data was even more infrequent. Some incubators did not collect basic performance data because they had only a limited amount of oversight over their clients' development. Only 5 out of 27 incubators used their clients' performance data to improve the management of their facility. An example of an incubator which did so is given in ***Box 2***.

Box 2

### Good practice — Integrated monitoring system

One of the most successful audited incubators in the Czech Republic regularly monitored the performance of hosted companies and the relevance and quality of the support offered to them. To do so, the incubator had developed a system of key performance indicators integrating exhaustive information about the activity of the incubator (e.g. number of training sessions organised, number of lectures given) and the performance of hosted companies (e.g. turnover, number of patents applied for, number of full-time equivalent jobs created). The resulting information was used by the management to assess the effectiveness of incubation programmes.

**51**
All of the monitoring systems used by the incubators which did carry out measurements of their activity involved performance indicators. However, only in 10 out of 27 cases were these defined with reference to standards set out by recognised national or international organisations[16]. This lack of standardisation made it more difficult to compare individual incubators' performance with available benchmarking data or to assess their impact on the local economy.

### Incubators' financial sustainability was conflicting with the objective of providing adequate incubation services to relevant businesses

**52**
The Court considers that a relevant business model should allow an incubator to achieve its strategic objectives, taking into account economic constraints. This should mean that the incubator is selective in providing support and services to a targeted group of tenants. Only those entrepreneurs who are able to put forward feasible, innovative and competitive business ideas should be supported. That means that appropriate entry criteria should be in place, and that scouting activity should take place to ensure that a sufficient number of quality candidates are available.

**53**
Incubation activity is not usually a profitable endeavour: support and services are provided free of charge or at a rate which is not sufficient to cover the incubator's costs. In the audited population of 27 incubators, only 7 had made sure that the financial support provided by stakeholders would be continuously available. An example of such an arrangement is described in ***Box 3***. The other 20 incubators were intended to be financially self-sustaining; this forced them to focus excessively on the financial side of their activity.

**54**
As a result, audited incubators depended heavily on income generated internally from incubation activities (mainly office space rental), which accounted for 72 % of their total revenue. In the benchmarked population of EC-BIC incubators, this activity generated only 34 % of revenue and the rest was covered by public and private funding.

**55**
In order to minimise their structural deficit, audited incubators whose continued financing was not guaranteed were forced to reduce their costs and maximise their income. Cost reductions inevitably led to reductions in the level of support offered, and to simplified incubation programmes. It also meant that fewer resources were available for carrying out scouting activities. As office rental was the main source of income, incubators had attempted to maximise this.

16 There are various organisations publishing this type of information. They include the European Business and Innovation Network, the US National Business Incubation Association and the European Commission.

Box 3

### Good practice — Financial support from the parent organisation

In Spain, in order to ensure stable operations and financial sustainability, the chambers of commerce, the organisations by which the incubators were managed, had formally committed themselves to making up any yearly deficit. This formal commitment is tangible evidence of the willingness of the incubators' stakeholders to take part in the business creation policy, which is perceived as a public mission coherent with the activity of the parent organisation.

**56**
The number of applicants rarely exceeded a few per month, even in the busiest audited facilities. Incubators therefore had little incentive to operate a formal entry procedure in which potential clients were selected on the basis of an examination of the level of innovation and potential for growth of the business ideas which they were proposing. Only 12 out of the 27 audited incubators had such a procedure in place.

**57**
This allowed businesses with a lower potential for growth to move into the incubator, reducing the efficiency with which incubators' resources were used.

**58**
Due to insufficient financing and a lack of external funding (e.g. from a shareholder), 8 out of 27 audited incubators had to limit the scope of the incubation support which they offered after their ERDF grant agreement expired. In four cases, they had completely abandoned incubation activity, turning themselves into normal commercial office suites with no business support function.

Weak selection criteria and a lack of development goals for hosted companies had a negative impact on the effectiveness of the incubators audited, and adversely affected the overall efficiency of their incubation activities.

## ERDF management systems did not focus on the efficiency of the services provided by business incubators

**59**
These audit results, including the supporting benchmarking data, clearly indicate that audited incubators did not provide their services efficiently enough. This means that it is particularly important to examine ERDF management systems established by managing authorities covering the expenditure of public funds. The Court's assessment focused on two important issues: how projects to be co-funded were selected, and how the sustainability of their operations was ensured.

## The procedure for selecting incubators did not give due consideration to certain crucial elements for incubation activity

**60**
The Court considers that public authorities should generally design aid measures in a way which takes into account the needs identified by their enterprise policy and which ensures sustainability and an adequate return from invested public funds in the form of new SMEs and jobs. To achieve this, projects should only be selected for co-financing if their future sustainability is ensured.

**61**
The two project implementation phases described in the introduction in connection with business incubators (see paragraph 9) are reflected in the ERDF management procedures applied by managing authorities. The ERDF is principally used to co-finance investments in physical infrastructure in EU regions. The management process applied by managing authorities focuses mainly on ensuring the effective delivery of physical outputs.

### Project assessment and selection

**62**
In the case of business incubators, this outputs-oriented approach can first be detected at the project selection stage. In particular, the project assessment and selection process did not pay enough attention to some key elements of incubation activity, which is part of the operational phase (phase II) of a project.

(a) Staff qualifications. The selection procedure failed to adequately assess the suitability of staff members responsible for providing business incubation services. The Court noted in particular that, in one third of cases, co-funding was granted for projects where it could not be demonstrated that any member of staff had the necessary knowledge of, or any experience in, the subject matter. In some cases, this lack of specific expertise was supposed to be addressed by additional ERDF co-funded projects.

(b) Incubation services. The scope and relevance of the incubation services which would be offered, and in particular of incubation programmes, was not assessed during the process for approving grants for business incubators.

(c) Financial sustainability. Applicants were not required to provide detailed information about the scope of business support and its expected costs or results. Nor were they required to provide information about their strategies for covering any shortfall in operating expenditure and guaranteeing the continued provision of incubation services.

(d) Expected project impact. The assessment procedure did not evaluate expected benefits for the regional economy. The lack of standardised assessment criteria also made it impossible to assess the efficiency of planned projects in terms of the cost per job created or per new SME.

## Project objectives and indicators

63
Some of the project objectives defined in the application were quantified using indicators, with defined targets to be achieved. Output indicators had been applied appropriately: examples included the number of square metres of office space built, or the number of printers installed.

64
However, none of the visited managing authorities had used a system of indicators based on good practice guidelines issued by an experienced national or international grouping of business incubators.

65
It is particularly important to define indicators precisely in setting objectives for incubation operations (phase II). In general, indicators were largely defined by applicants themselves.

66
The lack of structure in the use of indicators to establish specific project objectives and to monitor the operational activity also had an impact on the overall efficiency of public spending. Specifically, when signing grant agreements, managing authorities were unable to ensure that the value of the ERDF grant or the level of co-financing was proportionate to the results which the applicant expected to achieve, or to the impact on local entrepreneurship. The benefits of providing public funding were not quantified and assessed at the project selection stage.

## Project monitoring and follow-up

67
The physical establishment of incubators had generally been monitored properly. Member State authorities had carried out on-the-spot visits and reviews of financial documentation.

68
However, Member State authorities had not been able to appropriately measure incubators' effectiveness in achieving results. One main reason for this was that they had not taken steps to ensure that management systems at incubator level would fulfil their basic performance monitoring role. The lack of adequate results monitoring meant that they had been unable to properly follow up the achievement of the anticipated outcomes.

## ERDF co-funded incubators were not required to continue incubation activities for a sufficiently long period of time

69
The Court considers that particular attention needs to be paid to the financial and operational sustainability of co-financed projects, to the quality of incubation services offered and to the overall expected positive impact on the local, and possibly the wider, economy.

**70**
In this respect, the minimum length of the sustainability period[17] (5 years) was not adapted to the characteristics of the business incubation process; nor did it accurately reflect the life cycle of the assets built and purchased with ERDF support (20–30 years)[18]. This meant that managing authorities had relinquished their control over the assets immediately after the minimum sustainability period stipulated in the Structural Funds regulation[19] expired. An example of how a Member State successfully addressed this problem is given in ***Box 4***.

**71**
After the sustainability period had expired, the entity responsible for project delivery was released from its contractual obligations and was able to dispose freely of the assets which it had obtained. In the audited projects, 8 out of 27 incubators had partially or entirely stopped their incubation activity after the 5-year sustainability period expired.

**72**
In situations like this, the actual benefit from public funding was transferred to facility owners (e.g. private companies, local authorities, chambers of commerce and universities) instead of to local entrepreneurs and start-ups. The Court estimates that the total value of funding affected in this way may amount to around two fifths of total ERDF investment in the audited business incubation projects, i.e. 30 million euro.

17 The period during which the beneficiary is obliged to respect the commitments provided for in the grant agreement.

18 The life cycle of the assets in question (mainly buildings) was determined on the basis of depreciation rates applied in the respective Member States.

19 Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds (OJ L 161, 26.6.1999, p. 1).

Box 4

### Good practice — Sustainability period

In Poland, the problem of a short sustainability period had been resolved in the 2007–13 programming period in one of the measures included in the horizontal operational programme. The sustainability period laid down in the grant agreement had been extended to 20 years, and project operators were obliged to transfer all public financing received for the construction of the facility to the hosted SMEs over this period in the form of business support.

## Limitations in the dissemination of knowledge by the European Commission hampered the promotion of good practices

**73**
The Court's assessment of the Commission's contribution focused on those activities which, in principle, should contribute to the development and implementation of incubator projects. In particular, the Court assessed whether a body of expertise concerning incubation activity had been accumulated by the Commission, and whether good practice guidelines based on this expertise had been made available at European level.

### Commission initiatives

**74**
In the course of this audit the Court screened a number of the Commission's initiatives. It concentrated on initiatives which had been in place since the beginning of 2000, and whose main focus was on incubators. These initiatives had the potential to make a contribution to the accumulation of relevant knowledge within the Commission, and also to the dissemination of this knowledge and relevant good practices among interested stakeholders or responsible authorities.

**75**
Two important initiatives should be mentioned in connection with the management of knowledge:

(a) In 2002, the Commission published a benchmarking study providing valuable information about the state of European incubators. The study recommended that the benchmarking exercise should be repeated; however, this was never done.

(b) In parallel to the benchmarking exercise, the Commission set up a database of incubators[20]. The data was updated on a yearly basis until 2006, when the system ceased to be developed and updated.

### Knowledge dissemination

**76**
Concerning the dissemination of incubator-related expertise, apart from the benchmarking report mentioned above, a 'Smart guide to innovation-based incubators' was published by the Commission in 2010. The document, which was produced on the basis of the experience of EBN members, describes the main factors and processes which exert the greatest influence on the success of business incubation, and how this can best be measured. However, the guide did not provide any performance data or information about the effectiveness of this kind of business support. The guide was published too late to allow the audited incubators to take it into consideration at the time of their establishment. Only a few incubators were even aware of its existence.

20 http://cordis.europa.eu/incubators/about.htm

77
The initiatives described above demonstrate that in the last decade the Commission did indeed make some effort to gather data about business incubation. However, the experience and knowledge gathered was lost due to the lack of continuity in the Commission's initiatives. The Commission had not carried out any further systematic studies about business incubators, and therefore did not have adequate up-to-date knowledge to share. Such knowledge would have been particularly useful to Member States which were intensively developing their business incubation network (i.e. Member States which joined the EU in and after 2004).

78
The Commission does not have an adequate knowledge base which could allow it to assess the effectiveness of business incubators, or to provide advanced support to any business incubator — in particular, to those co-funded by the ERDF. The fact that the number of incubators is growing makes it especially important for the Commission to provide support to incubator operators, managing authorities and Member States alike, in particular by providing examples of good practice, successful incubation programmes or benchmarking data which managing authorities can use during the assessment of proposals for the establishment of future incubators.

# Conclusions and recommendations



79
The ERDF has made a significant financial contribution towards the creation of business incubator infrastructure, particularly in Member States in which this type of business support was relatively rare. However, the Court considers 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. This was mainly explained by a lack of expertise concerning incubation practices, and by shortcomings in management systems.

## In general, audited ERDF co-financed incubator facilities had been established properly, but the business support offered to clients was only moderately successful

80
The performance of the audited incubators was lower than that of the benchmarked incubators. Although the ERDF had been effective in delivering incubator infrastructure, it had been less successful in ensuring that they provided effective and efficient support to their clients. ERDF-supported incubators were operating in modern and properly adapted co-financed facilities, they were more costly to run and required more staff to produce a new start-up than the benchmarked incubators.

## Audited ERDF incubators had not made sufficient use of good practices

81
There are several possible reasons why the audited incubators were less effective and efficient. Most of the incubators had commenced operations relatively recently, and this lack of experience undoubtedly hampered their efficiency. The clearest signs of this were weaknesses and gaps in incubation programmes and inadequate business models, in particular with regard to financial sustainability. This constraint focused the attention of the incubators' management teams on generating income rather than providing quality services for high-growth potential start-ups. This income-oriented approach led incubator managers to relax the eligibility criteria for newcomers. As a result, costly incubator support was offered to low-growth ventures. This further increased inefficiency in the use of public resources invested in business incubators.

82
Incubators were unable to offer comprehensive, individually tailored assistance to their clients. The range of services offered was limited. Most audited incubators did not offer support to prospective entrepreneurs at the pre-incubation stage, or to non-resident clients. The incubation programmes were of a basic nature and did not take into account the specific individual needs or business development objectives of their clients. As there was no close cooperation with them, the incubators lacked detailed knowledge of their level of development. This had an additional adverse effect on the quality of business support offered.

### Recommendation 1

The Commission should require Member States to make authorisation for the establishment of new incubators using EU co-funding dependent on the following considerations:

(a) 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.

(b) 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.

(c) Incubators should proactively 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.

(d) 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.

(e) 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.

(f) 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.

## Management systems had been effective in ensuring that infrastructure was delivered, but not in ensuring the provision of efficient business incubation support

**83**

In most cases, management systems had been effective in ensuring that physical outputs (e.g. buildings) were delivered on time and according to plan. However, they did not ensure the effective and efficient delivery of incubation services (e.g. coaching and training). Greater emphasis should have been placed on the management of incubation services in the long term.

**84**

The Member State authorities which selected projects for co-funding paid insufficient attention to the expected outcomes of incubation activity and to the feasibility of the incubators' business models. This had serious consequences: it affected the objectives which were established for individual incubators, and had subsequent implications for the sustainability of incubation activities. This latter issue is particularly concerning, because the length of the sustainability period does not correctly reflect the nature of ERDF co-financed incubator projects. One important risk resulting from this is that the systems in place allow a significant part of the value of public funding to pass to incubator owners after the end of the sustainability period.

## Recommendation 2

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

(a) 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.

(b) During the project assessment process and when contractual obligations are being defined, more use should be made of expert knowledge of business incubation activities.

(c) The level of public 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.

(d) The sustainability period should be adjusted to correspond to the actual life cycle of the business incubator assets co-financed by the ERDF.

## The Commission did not take sufficient steps to facilitate the exchange of knowledge and good practices

**85**
Although the Commission has made some effort to obtain knowledge about the activities and characteristics of a large population of business incubators in Europe, the support which it offers does not capitalise on this. The recently published 'Smart guide' provides a valuable overview of the principles of incubation, but it is not sufficiently detailed and it omits important data concerning the incubation process, e.g. benchmarking data for key indicators. The Commission's activities in disseminating relevant knowledge and promoting good practices were too limited to mitigate the risk of failure for recently established co-financed incubators.

## Recommendation 3

The Commission should:

(a) 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;

(b) resume its efforts to support the community of business incubators, and in particular 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.

This Report was adopted by Chamber II, headed by Mr Henri GRETHEN, Member of the Court of Auditors, in Luxembourg at its meeting of 9 April 2014.

*For the Court of Auditors*

Vítor Manuel da SILVA CALDEIRA
*President*

## List of audited incubators

| Name of the incubator | Visited | Surveyed |
|---|---|---|
| **Czech Republic** | | |
| Agentura pro ekonomický rozvoj Vsetínska, o.p.s. Podnikatelský inkubátor Vsetín | X | X |
| BIC Ostrava spol.s r.o. | | X |
| Podnikatelský inkubátor Nymburk příspěvková organizace | X | X |
| South Moravian Innovation centre | X | X |
| STEEL IT Třinec Institut EuroSchola, o.s. | | X |
| TechnoPark Pardubice, k.s. | X | X |
| Vědeckotechnický park Plzeň, a.s. | X | X |
| Vědeckotechnický park Roztoky Trigema a.s. | | X |
| VŠB–TU Ostrava | | X |
| VÚSH, a.s. Podnikatelský inkubátor Brno-Jih | | X |
| **Germany** | | |
| BGI Biotechpark Gatersleben Infrastrukturgesellschaft mbH | | X |
| Merseburger Innovations- und Technologiezentrum GmbH | | X |
| Mitteldeutsches Multimediazentrum Halle GmbH | | X |
| TechnologieZentrum Dresden GmbH | | X |
| TGZ Halle Technologie- und Gründerzentrum Halle GmbH | | X |
| **Italy** | | |
| 2i3T Società per la gestione dell'Incubatore di Imprese e per il Trasferimento Tecnologico dell'Università' degli Studi di Torino | | X |
| BIC Pieve di Bono | | X |
| Bioindustry park Silvano Fumero Spa | | X |
| Incubatore Comune di Ultimo | | X |
| Incubatore universitá degli studi di Firenze (strutture di Via Nizza e Strada del Drosso) | | X |
| Pépinière d'Entreprises Espace Aosta | | X |
| Polo Scientifico e Tecnologico di Navacchio | | X |
| Sistema di incubazione policentrico metropolitano Comune di Firenze | | X |
| Tecnogranda Spa | | X |
| **Poland** | | |
| Agencja Rozwoju Regionalnego S.A. Beskidzki Inkubator Technologiczny w Bielsku-Białej | | X |
| Akademicki Inkubator Przedsiębiorczości Sp. z o.o. | X | X |
| Bełchatowsko – Kleszczowski Park Przemysłowo – Technologiczny | | X |
| Fundacja Uniwersytetu im. A.Mickiewicza w Poznaniu | X | X |
| Inkubator Tecnologiczny ARTERION/Fundacja Wspierania Przedsiębiorczości i Nauki | X | X |
| Łódzki Regionalny Park Naukowo-Technologiczny Sp. z o.o. | X | X |
| Śląski Park Przemysłowo — Technologiczny Sp. z o.o. | X | X |
| Stowarzyszenie Inicjatyw Społeczno — Gospodarczych Inkubator Technologiczny w Białogardzie | | X |
| Wrocławski Park Technologiczny S.A. | X | X |

| Name of the incubator | Visited | Surveyed |
|---|---|---|
| **Spain** | | |
| BIC Granada | | X |
| Parque Tecnológico de Andalucía | X | |
| Vivero de empresas de Badajoz | X | |
| Vivero Castilleja de la Cuesta | | X |
| Vivero de Azuaga | | X |
| Vivero de Plasencia | X | X |
| Vivero de Puertollano | X | X |
| Vivero de Vigo | | X |
| Vivero Nuevo Torneo Sevilla | X | X |
| Vivero de Alcala de Guadaira | X | |
| Vivero Salamanca | | X |
| Vivero Talavera de la Reina | X | X |
| **United Kingdom** | | |
| Chester Innovation Economy Centre | X | X |
| Core Technology Facility | X | X |
| Daresbury Incubator | X | X |
| InfoLab21 | X | X |
| Power Technologies Innovation Centre | X | X |
| Technium Springboard | | X |
| The Media Factory | X | X |
| Swansea Technium II | X | |
| Aberystwyth Technium | X | |
| PONTIO — Bangor University | X | |

# Reply of the Commission



## Executive summary

### I

Improving SME competitiveness requires a combination of financial and non-financial support and an SME-friendly legal and administrative framework. It is reflected in the regulatory framework for the new 2014–20 programming period accordingly. Support for SME competitiveness is a top priority for the European Structural and Investment Funds (ESIF). The new generation of programmes harbours the opportunity to revise and better target SME support and to develop a comprehensive and coherent policy mix that makes full use of the range of instruments available, including financial instruments, SME support services and public procurement possibilities.

### Common reply to III and IV

The Commission welcomes the Court's conclusion concerning the ERDF financial contribution to the creation of business infrastructure.

The Commission notes that the classification of the performance of the audited incubators as modest is based upon the comparison of the results of these more recently established incubators with the benchmarks set by well-established, more mature incubators.

In particular, in the Member States that joined the EU in and after 2004, this kind of business infrastructure was missing in the past and is only being built now, also with Structural Funds support. Not much experience, therefore, has been gained and further efforts should be made to better learn how to effectively use these infrastructures to support adequately new business ideas/new start-ups.

### IV

The benchmarks presented in the reports of the European Commission Business and Innovation Centre and International Association of Science Parks and Areas of Innovation would help in complementing the assessment with additional data.

### V

The reform of cohesion policy for 2014–20 will provide the committee monitoring the respective operational programmes with the necessary incentives to approve selection criteria ensuring maximum impact for this type of investment. Countries and regions will have to decide up front what objectives they intend to achieve with the available resources and identify precisely how they will measure progress towards those goals for each priority axis. This will allow regular monitoring and debate on how financial resources are used.

### VI

The European Commission created the European Commission Business and Innovation Centre (EC-BIC) in 1984. Since then, it has provided continuous support through the EC-BIC quality insurance system.

To increase the knowledge of managing authorities in the field, the European Commission drafted 'A guide to regional innovation strategies (RIS).' In addition, the Commission provided guidance based on the experience of the different generations of regional innovation strategies. Furthermore, guidance was issued by supported projects/networks. The Commission has developed many initiatives to encourage this, including 'Regions for economic change' (started in 2006). This is a learning platform for EU regions that includes the annual 'Regions for economic change' conference and RegioStars awards, a policy learning database and interregional fast track networks, funded by the Interreg IVC and urbact II programmes.

The Commission adopted in June 2008 the Small Business Act (SBA), a comprehensive SME policy framework for the EU and its Member States. The SBA includes entrepreneurship as a priority area and has put in place a more comprehensive approach for tackling the full range of barriers to entrepreneurship at EU and national levels. This work has been re-enforced by the 'Entrepreneurship 2020' action plan adopted in early 2013. Within this overall framework, the Commission has continued to support the BIC quality mark scheme.

### VII

Within the framework for cohesion, the Commission is not involved in the selection of projects, except for the approval of major projects.

The new regulatory framework for 2014–20 nevertheless ensures from the start that, through the content of the adopted programmes and the intervention logic including results indicators for objectivesand outputs encapsulated in priority axes, the selection of projects will be done by Member States as far as possible according to the Court's recommendation.

Also, based on the performance framework established for each operational programme, the Commission will be in a position to encourage and review the performance of programmes through milestones and indicators. Where there is evidence resulting from a performance review that a priority has failed to achieve the milestones set out and that the Member State has not taken the necessary steps to rectify the problem, the Commission may suspend all or part of an interim payment or apply ultimately financial corrections. The performance reserve should not be allocated to such programmes.

Under the 2014–20 legal framework, the Commission is also strengthening the *ex ante* conditionalities for the funds to ensure that the necessary conditions for their effective implementation are in place. As regards SMEs, the *ex ante* conditionality refers to the specific actions carried out by the Member States to underpin the promotion of entrepreneurship taking into account the Small Business Act.

In addition, the Commission, through its active and continuous work with the Member States, will advise managing authorities to include recommendations of the European Court of Auditors in the selection process and the selection criteria for business incubators. A contribution to the expected results of the priority axis is now required to be included in the selection criteria.

### VII (a)

The Commission fully supports the need to establish business incubators on the basis of detailed and realistic business plans. They should be integrated in the overall regional development strategy and Member States are strongly encouraged to enforce smart specialisation strategies

### VII (b)

Skills, in particular in Member States which joined in and after 2004, to incubate business activities are currently being built and the main driver is the need to ensure the financial sustainability of the incubation infrastructure which has just been built. These skills did not exist before and newly built incubation infrastructure is triggering the process of building the skills.

### VII (c)

The Commission agrees. The 2014–20 programming period makes incubator activities conditional on the existence of an appropriate development strategy. Incubators are erected primarily to foster the indigenous economic development of a region and to respond to the needs and potential identified by the economic (or innovation) strategy.

### VII (d)

The Commission agrees. The Commission will advise Member States to include the recommendation of the Court as a requirement to be taken into consideration when selecting operations and preparing support contracts between intermediate bodies and the management of incubation facilities.

### VII (e)
The Commission agrees in principle, but, in line with the subsidiarity principle, this recommendation is more for the Member States to consider, depending on the objectives pursued to foster endogenous economic growth. The Commission will recommend that Member States encourage incubators to open their services to non-resident companies with a well-defined strategy to ensure benefits for the local business community. The Commission will also recommend that the Member States establish networking and links with other incubators to foster knowledge exchange and to encourage co-incubation, notably across borders within the EU and beyond.

### VII (f)
The Commission agrees. The Commission will recommend that Member States encourage incubators to set up such a monitoring system without increasing the administrative burden on supported clients. Given that some business entities treat business information as confidential, this can be done only on a voluntary basis.

Under shared management of Structural Funds, there is no legal basis for the Commission to explicitly require the incorporation of these elements into the design of procedures.

The Commission, in its supervisory role, will encourage Member States to follow the cited recommendation. However, under shared management Member States are responsible for selecting, implementing and monitoring projects.

The Commission considers that the Court's recommendations under (g) and (j) should be addressed to the Member States.

### VII (g)
The Commission agrees. This is in line with the results orientation of the reformed cohesion policy and the European Commission will advise that this recommendation be included in the relevant selection criteria.

### VII (h)
The Commission agrees. Expert knowledge in business incubation, particularly in Member States which joined in and after 2004, has been built mainly through learning by doing. It is now more probable that experts can be found in these countries who have some experience in incubation and can disseminate their knowledge to train other actors involved in incubation, like, for example, labour offices. The Commission will advise Member States to follow this recommendation.

### VII (i)
The Commission agrees in principle. The ERDF contribution to the project is based on a cost–benefit analysis derived from the business plan. The results of a business incubator can, however, be influenced by external factors that cannot always be known in advance and by the level of public sector support per job created. Linking ERDF payments with results would be challenging for this reason.

### VII (j)
The Commission disagrees. The Commission considers that the sustainability period as defined by the Court should correspond to the durability period of the operations as defined in Article 71 of the common provisions regulation (CPR — Regulation (EU) No 1303/2013). There is no legal basis for the Commission to impose an adjustment of the durability period to the actual life of the business incubator assets beyond the 5 years.

In that context, the Commission takes note of the good practices identified by the Court in some Member States.

### VII (k)
The Commission recognises the need to continue updating the knowledge. In 2014, the Commission will publish a report on 'Setting up, managing and evaluating EU science and technology parks' which will provide advice and guidance and will be disseminated to managing authorities.

## VII (l)

The Commission agrees and underlines that the new orientation of the Enterprise Europe Network (EEN) (2015–21) already takes account of these recommendations. The EEN will play a role in connecting regional SME support services (including incubators) to good practice at European level.

Enterprise Europe Network partners in the current network are also required to cooperate with other European networks and to put in place actions such as joint promotion and signposting.

# Introduction

## 01

The Commission reflected the important role which the SMEs play in the economy in the regulatory framework for the new 2014–20 programming period: the SMEs should be primarily supported from the European Structural and Investment Funds.

# Audit scope and objectives

## 16

The Commission welcomes the Court’s recognition that the EBN’s certification scheme, supported by the Commission, fosters best practice. ERDF co-funded incubators in the Court’s sample are compared with EC-BIC incubators which are certified on the basis of a wide range of criteria.

# Observations

## Common reply for paragraphs 21 to 23

The Commission welcomes the Court’s assessment.

## 26

The size of the incubators is one of many factors ensuring comparability between the effectiveness of the ERDF audited incubators in relation to the benchmarked population. The Commission would like to highlight that other external factors are also important, such as a regional economy, a profile of incubators and the type of businesses accommodated, and the principles of market failures.

The primary role of the ERDF incubators is to foster the development of start-ups. Support offered to businesses beyond the scope of physical incubation can be achieved by other means. As an example, business support in the UK is often provided by service companies which offer a wide variety of business advice.

## 27

As regards the example given by the Court, the Commission notes that the cost per job created to assess the incubator’s efficiency can vary from country to country as the start-up costs, depreciation and accounting policies as well as salary level in different Member States impact upon this indicator.

## 28

The relative underperformance of ERDF-supported incubators in the Court’s sample can also be ascribed to the fact that BIC incubators are subject to the quality check of EC-BIC’s certification scheme. See also the reply to paragraph 16.

## 29

Internal performance depends on management skills, organisation and the motivational and local innovation systems. The Commission will recommend that Member States implement accreditation or quality systems in ERDF-inanced incubators.

**32**
The Commission welcomes the Court's assessment that 22 out of 27 projects audited had prepared a business plan in line with the obligations arising from the legislation governing ERDF support.

The Commission acknowledges that in some cases business plans, although in line with the formal selection criterion, lacked quantifiable objectives and appropriate results indicators. However, under shared management, the selection of projects is the responsibility of the Member States. This means that when selecting the business incubators, it should have been primarily the Member State (the managing authority) verifying the quality of project application and supporting documents (e.g. quality of business plans).

**33**
As recalled in the reply to paragraph 32, the selection of projects under shared management is the responsibility of the Member States. It is neither the role of the Commission nor within its capacity to verify all these details for each project application.

**34**
In some Member States, especially Member States that joined the EU in and after 2004, a predominant focus was given to the construction of the physical infrastructure because of a lack of previous experience in the implementation of business incubators. In order to have a fully operational business incubator, time and well-performing local innovation ecosystems are required. This is the process which is going to be enforced with the new result-orientation approach of cohesion policy.

**36**
As explained in paragraph 34, the business infrastructure (e.g. business incubators) is underdeveloped in the majority of Member States that joined the EU in and after 2004. The ERDF supported the construction of business incubators and provision of basic 'soft services' for the  newly in the 2007–13 period. Soon it became evident that the support of 'soft services' was underestimated and improvements are planned for the 2014–20 programming period.

**37**
Incubators go through different stages of the life cycle and their provisions depend on their maturity and the ecosystem they are operating in. Although the Commission shares the view that a broad range of services should be offered to enable smooth incubation, the services to be offered are developing over time in line with the life cycle of incubators.

**38**
The ERDF supported the construction of business incubators but there was a lack of focus on the cooperation among businesses and business incubators. In Member States that joined EU in 2004 and after, it is caused by lack of business knowledge (business planning, management skills etc.) on both sides, on the side of business incubators (new infrastructure and no skilled labour to manage it) and on the side of enterprises. The same is valid for EU-15 Member States where the investments aimed to complement the mission innovation system infrastructure.

Furthermore, hosted companies are not compelled to collaborate with the incubator's staff as they might resort to external services in order to establish their development plan. Sharing sensitive data might have negative consequences for the hosted companies unless a confidentiality agreement is signed.

Business services can be commissioned from outside service providers instead of entrusting them to the incubator staff.

**39**
The Commission refers to its reply to paragraph 38.

**40**
As pointed out by the Court, clients are attracted by subsidised office space rather than by services provided. Tenants should be carefully selected and reflect a profile set out in the incubation programme. As the selection of projects and the definition of selection criteria fall within national competences, the Commission will recommend that Member States consider these aspects.

41
Specialist services can be offered by outsiders as in-house services are of a more general nature. Building the expertise of incubator staff can be costly and the incubator might never reap the desired benefits.

43
The Commission considers that the lack of cooperation between incubators and clients may be a direct consequence of the client's reluctance to share sensitive data.

44
The Commission considers that disbursed EU funds have a positive impact on the development of entities which are not physically located in the incubator's premises but use their services and cooperate with tenants.

45
The business incubators have been only set up in Member States which joined in and after 2004 in this programming period and time was then needed to develop further the cooperation between the incubator and its clients and also with prospective clients. Another factor which limited the cooperation was the quality of the staff managing the business incubators that often possessed insufficient business skills. Lastly, some incubators lacked the organisational capacity to provide pre-incubation support while providing such support usually requires additional own resources.

The same is valid for EU-15 Member States where the investments aimed to complement the creation of an innovation system infrastructure.

47
Weak cooperation between the business sector, universities and R & D institutions is well known in the Member States which joined the EU in 2004 and after and the Commission has been attempting to solve this issue in the current programming period by establishing proper coordination mechanisms where possible. This issue then has an impact on the activities of business incubators and their attempts to network with R & D and university partners.

48
The role played by incubators in a region's business infrastructure differs, depending on Member States and each specific national context.

In the new programming period, the elaboration of a smart specialisation strategy, including a wide consultation of innovation players, is a precondition for accessing ERDF support.

49
As a contribution to the expected results of the priority axis is now required to be included in the selection criteria, the Commission will advise the managing authorities to include the recommendation of the European Court of Auditors concerning the establishment of a monitoring system in each business incubator in the selection process and selection criteria.

53
Incubation activity should be sustainable after the ERDF co-financing comes to an end. The sustainability criterion is embedded in the project selection criteria. In line with the principle of sound financial management, the continuity of the operation should be ensured without full reliance on public financing.

56
An incubator provides primarily rental space for hosted companies, especially at an early stage of its business life cycle. In order to ensure financial viability, potential applicants are welcome to occupy the available space.

The Commission also considers that one of the primary objectives of ERDF-supported incubators was to create jobs and not only high-tech SMEs.

### 58

The incubator's provisions can be viewed from two perspectives: services provided and premises. As far as premises are concerned, the ERDF has achieved the objective of providing suitable office space. The service function can be delivered by outside service providers.

Lack of external funding is a frequent issue when supporting SMEs or R & D activities. The business incubators were built in regions and after the sustainability period as defined in the ERDF regulation they were allowed to switch to other activities. This was primarily caused by improper definition of selection criteria; therefore, in the new programming period, and in line with the subsidiarity principle, the Commission will recommend that managing authorities pay more attention to this aspect in particular, by establishing more demanding selection criteria in the operation selection process.

### 59

Under the shared management, the Commission is not involved in the selection of projects, except for the approval of the major projects.

Indeed, as laid down in Article 125 of the CPR, establishing selection criteria falls under the responsibility of the managing authority, with the approval of the monitoring committee.

According to Article 48(3) of the CPR, the Commission shall participate in the work of the monitoring committee but only in an advisory capacity.

The European Commission will therefore advise the managing authorities to include recommendations of the European Court of Auditors in the selection process and selection criteria of business incubators. Also, a contribution to the expected results of the priority axis is now required to be included in the selection criteria.

### 60

For the 2014–20 programming period, the Commission is requesting Member States to fulfil *ex ante* conditionality to put in place a smart specialisation strategy which shall be developed through an entrepreneurial discovery process with a very closed involvement of enterprises to meet research strengths with business needs.

### Common reply to paragraphs 62 to 62(c)

Under the 2007–13 legal framework, the project assessment and selection process falls under the responsibility of national authorities, the managing authority and the monitoring committee, with the Commission having only an advisory role in the latter.

Under the 2014–20 legal framework, the contribution of an operation to the expected results of a priority axis is now required to be included in the selection criteria.

### 62(d)

Investments in business incubators are more of an enabler than a driver of growth. Business incubators cannot generate economic growth by themselves; they need to be combined with other external factors. In addition, the interventions may have significant externalities, having both negative and positive influences on the development of a region. Therefore, establishing a direct link between the investment in a business incubator and regional benefits requires in-depth evaluation.

The Commission assesses the stated objectives of the priority axes of operational programmes. This may not only be jobs created but also, for example, new products developed or exports generated.

### 64

As regards Member States which joined in and after 2004, they are still (continuously) learning how to properly define indicators and evaluate their implementation. This also has implications for the monitoring of business incubators, which are newly built business infrastructures.

### 66

The Commission notes that although the system of project selection, which falls under the responsibility of the Member States, was correct, it did not assure that the level of co-financing was proportionate to the impact on local entrepreneurship. A set of indicators was established by managing authorities to monitor the operational programme performance in its implementation and not in operations. The Commission will recommend that Member States put more emphasis on the monitoring of operations.

### 68

The Commission refers to its reply given under paragraph 66.

### 70

The recommendation made by the Court goes beyond the regulatory obligation of the ERDF regulation, which sets 5 years as the durability period.

### 71

There is no legal basis for the Commission to impose additional obligations to beneficiaries as regards incubation activities beyond the 5-year sustainability period.

It is the responsibility of national authorities to decide, in the selection criteria and in conditions for providing the grant to the project, on the extension of the sustainability period beyond the duration laid down in the relevant regulation.

### 75(a)

The former benchmarking exercise was continued via a more targeted action to benchmark and stimulate best practice in European incubators applying for accreditation under the EC-BIC trademark scheme and those wishing to continue their membership. In its capacity as owner of the EC-BIC trademark and member of the BIC Quality Mark Committee (BQMC)[1], the Commission contributes to the work to encourage business and innovation centres (BICs) throughout Europe and beyond to enhance their quality and practices, with a view to obtaining the EC-BIC trademark.

In order to be awarded this trademark, BICs must go through an accreditation process to check their compliance with the specific criteria for this trademark (EBN quality system).

The sublicensing of this trademark has been managed by the EBN since 2002 under a trademark licensing contract concluded with the Commission. The current licensing contract was concluded in 2009 for a duration of 5 years and the Commission is currently considering the options for the future. The EBN will be invited to step up actions to promote its benchmarking scheme more widely and encourage further uptake.

### 75(b)

The database of incubators was implemented in the context of a networking project for incubators financed under FP6 alongside similar networking projects for technology transfer offices and for risk funds. In the programme committees for the CIP, Member States increasingly questioned the value of pure 'networking projects' and called for projects supporting 'cooperation around topics' of common interest such as 'standardisation and innovation' and 'innovation in services'. In these projects, a vertical integration of different innovation actors (SMEs, entrepreneurs, academia, administration, etc.) was given preference over networking with similar organisations across Europe. For incubators, the EurOffice 1 + 2 projects (today the EBN soft-landing club) implemented this new approach to work more closely with the community rather than expanding it. The projects developed and tested coordinated service packages among participating incubators assisting a fast internationalisation of their tenant start-ups.

Furthermore, although there is no longer a benchmarking, entrepreneurs can easily access information on individual incubators directly from their websites, due to improvements in web-related technologies.

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1 Decisions to grant the EC-BIC licence to new candidate organisations; renewal or withdrawal of existing licences; selection of the BICs to be audited; suggestion of changes to the EC-BIC certification and quality system; changing and adopting its internal regulations.

**77**
The Commission is systematically preparing guidance so that it can be used in the 2014–20 programming period. Member States are also obliged to submit an annual implementation report for each operational programme every year, which gives an overview of performance of implementation of Structural Funds.

**78**
The Commission recognises the need to continue updating the knowledge. In 2014, it will publish a report on 'Setting up, managing and evaluating EU science and technology parks', which will provide advice and guidance, and which will be disseminated widely to managing authorities in the coming months.

## Conclusions and recommendations

**80**
The Commission notes that the classification of the performance of the audited incubators as modest is based upon the comparison of the results of these more recently established incubators with the benchmarks set by well-established, more mature incubators.

In general, incubators in the Court's sample were relatively less well staffed than those in the benchmark in all key functions, including entrepreneur guidance and support.

**81**
The Commission shares the Court's opinion concerning the lack of experience of some incubators. In the Member States that joined the EU in and after 2004, this kind of business infrastructure was missing in the past and is only being built now, also with Structural Funds support. Therefore not much experience has been gained and further efforts should be made to better learn how to effectively use these infrastructures to support new business ideas/new start-ups adequately.

**82**
Incubators have different stages of life cycle and their offer depends on their maturity and ecosystem they are operating in. Although the Commission shares the view that a broad range of services should be offered to enable smooth incubation, the services to be offered are developing over time in line with the life cycle of the incubators.

### Recommendation 1
Under the framework for cohesion, the Commission is not involved in the selection of projects, except for the approval of major projects.

The new regulatory framework for 2014–20 nevertheless ensures from the start that, through the content of the adopted programmes and the intervention logic including results indicators for objectives and the outputs encapsulated in priority axes, the selection of projects will be done by Member States as far as possible according to the Court's recommendation.

Also, based on the performance framework established for each operational programme, the Commission will be in a position to encourage and review the performance of programmes through milestones and indicators. Where there is evidence resulting from a performance review that a priority has failed to achieve the milestones set out and that the Member State has not taken the necessary steps to rectify the problem, the Commission may suspend all or part of an interim payment or apply ultimately financial corrections. The performance reserve should not be allocated to such programmes.

Under the 2014–20 legal framework, the Commission is also strengthening the *ex ante* conditionalities for the funds so as to ensure that the necessary conditions for their effective implementation are in place. As regards SMEs, the *ex ante* conditionality refers to the specific actions carried out by the Member States to underpin the promotion of entrepreneurship taking into account the Small Business Act.

In addition, the Commission, through its active and continuous work with the Member States, will advise managing authorities to include recommendations of the European Court of Auditors in the selection process and the selection criteria for business incubators. A contribution to the expected results of the priority axis is now required to be included in the selection criteria.

## Recommendation 1(a)
The European Commission fully supports the need to establish business incubators on the basis of detailed and realistic business plans. They should be integrated in the overall regional development strategy and Member States are strongly encouraged to enforce smart specialisation strategies which are developed.

## Recommendation 1(b)
Skills, in particular in Member States which joined in and after 2004, to incubate business activities are currently being built and the main driver is the need to ensure the financial sustainability of the incubation infrastructure which has just been built. These skills did not exist before and newly built incubation infrastructure triggers the process of building the skills.

## Recommendation 1(c)
The Commission agrees. The 2014–20 programming period makes incubator activities conditional on the existence of an appropriate development strategy. Incubators are erected primarily to foster the endogenous economic development of a region and to respond to the needs and potential identified by the economic (or innovation) strategy.

## Recommendation 1(d)
The Commission agrees. The Commission will advise Member States to include the recommendation of the Court as a requirement to be taken into consideration while selecting operations and preparing support contracts between intermediate bodies and the management of incubation facilities.

## Recommendation 1(e)
The Commission agrees in principle, but, in line with the subsidiarity principle, this recommendation is more for the Member States to consider, depending on the objectives pursued to foster endogenous economic growth. The Commission will recommend that Member States encourage incubators to open their services to non-resident companies with a well-defined strategy to ensure benefits for the local business community. The Commission will also recommend that Member States establish networking and links to other incubators to foster knowledge exchange and to encourage co-incubation, notably across borders within the EU and beyond.

## Recommendation 1(f)
The Commission agrees. The Commission will recommend that Member States encourage incubators to set up such a monitoring system without increasing the administrative burden on supported clients. Given that some business entities treat business information as confidential, this can be done only on a voluntary basis.

## 83
The ERDF supported the construction of business incubators and the provision of basic ‘soft services’ newly in the 2007–13 period. It soon became evident that the support of ‘soft services’ was underestimated and improvements are planned for the 2014–20 programming period.

The Commission will recommend that the managing authorities pay more attention to this aspect in particular, by establishing more demanding selection criteria in operation selection process for the 2014–20 programming period.

### 84

The Commission considers that the ECA statement is addressed to entities outside the remit of the Commission, namely the Member States.

There is no legal basis for the Commission to impose additional obligations on beneficiaries as regards incubation activities beyond the 5-year durability period.

It is the responsibility of national authorities to decide, in the selection criteria and in the conditions for providing the grant to the project, on the extension of the durability period beyond the duration laid down in the relevant regulation.

### Recommendation 2

Under shared management of Structural Funds there is no legal basis for the Commission to explicitly require the incorporation of these elements into the design of procedures.

The Commission, in its supervisory role, will encourage Member States to follow the cited recommendation. However, under shared management Member States are responsible for selecting, implementing and monitoring projects.

The Commission considers that the Court's recommendations under (a) and (d) should be addressed to the Member States.

### Recommendation 2(a)

The Commission agrees. This is in line with the results orientation of the reformed cohesion policy and the Commission will advise that this recommendation be included in the relevant selection criteria.

### Recommendation 2(b)

The Commission agrees. Expert knowledge in business incubation, particularly in new Member States, has been built mainly through learning by doing. It is now more probable that experts can be found in these countries who have some experience in incubation and can disseminate their knowledge to train other actors involved in incubation like, for example, labour offices. The Commission will advise Member States to follow this recommendation.

### Recommendation 2(c)

The Commission agrees in principle. The ERDF contribution to the project is based on a cost–benefit analysis derived from the business plan. The results of a business incubator can, however, be influenced by external factors that cannot always be known in advance and by the level of public sector support per job created. Linking ERDF payments with results would be challenging for this reason.

### Recommendation 2(d)

The Commission disagrees. The Commission considers that the sustainability period as defined by the Court should correspond to the durability period of the operations as defined in Article 71 of the CPR. There is no legal basis for the Commission to impose an adjustment of the durability period to the actual life of the business incubator assets beyond the 5 years.

In that context, the Commission takes note of the good practices identified by the Court in some Member States.

### 85

The European Commission created the European Commission Business and Innovation Centre (EC-BIC) in 1984. Since then, it has provided continuous support through the EC-BIC quality insurance system.

To increase the knowledge of managing authorities in the field, the European Commission drafted 'A guide to regional innovation strategies (RIS).' In addition, the Commission provided guidance based on the experience of the different generations of regional innovation strategies. Furthermore, guidance was issued by supported projects/networks. The Commission has developed many initiatives to encourage this, including the 'Regions for economic change' (started in 2006). It is a learning platform for EU regions that includes the annual 'Regions for economic change' conference and RegioStars awards, a policy learning database and interregional fast track networks, funded by the Interreg IVC and Urbact II programmes.

The Commission adopted in June 2008 the Small Business Act (SBA), a comprehensive SME policy framework for the EU and its Member States. The SBA includes entrepreneurship as a priority area and has put in place a more comprehensive approach for tackling the full range of barriers to entrepreneurship at EU and national levels. This work has been re-enforced by the 'Entrepreneurship 2020' action plan adopted in early 2013. Within this overall framework, the Commission has continued to support the BIC quality mark scheme.

### Recommendation 3(a)

The Commission recognises the need to continue updating the knowledge. In 2014, it will publish a report on 'Setting up, managing and evaluating EU science and technology parks' which will provide advice and guidance and will be disseminated to managing authorities.

### Recommendation 3(b)

The Commission agrees and underlines that the new orientation of the Enterprise Europe Network (ENN) (2015–21) already takes account of these recommendations. The EEN will play a role in connecting regional SME support services (including incubators) to good practice at the European level.

Enterprise Europe Network partners in the current network are also required to cooperate with other European networks and to put in place actions such as joint promotion and signposting.

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**In recent years, the EU has co-financed business incubator projects in the context of its cohesion policy with the support of the European Regional Development Fund. This is in line with the EU's political priorities, especially in view of the Lisbon and Europe 2020 strategies of supporting the launch and development of small and medium-sized enterprises (SMEs), as they play an important role in the creation of growth and jobs. In this report, the European Court of Auditors assesses whether these business incubator projects were successful in supporting start-up SMEs.**

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