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From:	General Secretariat of the Council
To:	Permanent Representatives Committee (Part 2)/Council
No. prev. doc.:	13064/14
Subject:	Draft Council Conclusions on the Court of Auditors' Special report No 7/2014 entitled "Has the ERDF successfully supported the development of business incubators?" ¹

1. On 5 September 2014, the General Secretariat of the Council received the Special Report No 7/2014 entitled "Has the ERDF successfully supported the development of business incubators?"¹, adopted by the Court of Auditors at its meeting on 9 April 2014.
2. Pursuant to the rules laid down in the Council conclusions on improving the examination of special reports drawn up by the Court of Auditors², the Permanent Representatives Committee (Part II) at its meeting on 16 September 2014 instructed³ the Working Party on Structural Measures to examine this report according to the rules laid down in the abovementioned conclusions.

¹ OJ C 295, 3.9.2014, p. 3.

² Doc. 7515/00 FIN 127 + COR 1.

³ "I" Item Note - doc. 13064/13.

3. The Working Party on Structural Measures examined the Special Report on 31 October 2014 and an agreement on draft Council conclusions was reached on 7 November following a silence procedure.
 4. The Permanent Representatives Committee is therefore invited to recommend to the Council to adopt, as an "A" item, these draft Council conclusions as set out in the Annex to this document.
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**Draft Council conclusions on Special Report No 7/2014 by the European Court of Auditors:
"Has the ERDF successfully supported the development of business incubators?"**

THE COUNCIL OF THE EUROPEAN UNION,

- (1) WELCOMES the Special Report from the European Court of Auditors (hereinafter referred to as "the Court") No 7/2014 entitled "Has the ERDF successfully supported the development of business incubators?" (hereinafter referred to as "the Report") and TAKES NOTE of its findings on the basis of a sample of 49 ERDF co-funded business incubators (27 audited in loco in four Member States and 22 used to gather information in other two Member States);
- (2) RECALLS that small and medium-sized enterprises (SMEs) are key actors in the development of the European Union economy and play an important role in achieving smart, sustainable and inclusive growth;
- (3) EMPHASISES, in this context of increasing political and economic priority of the provisions of support to SMEs, the crucial role of business incubators, which aim to accompany the successful establishment and further development of high-potential start-up enterprises, and RECALLS that, as referred to in this Report, published research suggests that SMEs which have received incubation support are significantly less likely to fail during the first few years after their establishment and that the general 3-year survival rate of new companies is around 56 %, whereas the rate for companies which have been assisted by business incubators is around 90 %;

- (4) **RECALLS** that, as referred to in the Report, the allocation from the Structural Funds earmarked for the support of SMEs during the two last programming periods (2000-2006 and 2007-2013) amounted to EUR 23 billion and EUR 15 billion respectively and **UNDERLINES** that for the 2014-2020 programming period it is important to ensure successful performance and effective use of the available EU Funds;
- (5) **WELCOMES** the findings of the Court 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;
- (6) **HIGHLIGHTS** that a business incubator is a complex system whose success depends on external factors such as the macroeconomic situation, the legal system within which it operates and the entrepreneurial culture in the country in which it is located. The scope, variety and intensity of support to SMEs through incubators depends on several factors and varies depending on the stage of the life cycle of the company supported (eg. establishment, expansion), the market sector in which it operates (eg. information and communication technology, biotechnology) and the type of business (eg. start-up, spin-off);
- (7) **TAKES NOTE** of the Court's observations that audited ERDF co-financed incubators facilities had been established properly, but that the business support offered by these incubators was only moderately successful; **UNDERLINES** that such an assessment about the low performance should also take into account that the benchmark exercise was carried out with the results achieved by the 65 EC-BIC certified incubators, which were members of the European Business and Innovation Centre Network (EBN), and that therefore the audit sample was compared to incubators representing best practice recognised by the Commission and whose level of maturity was very different from the audit sample; **UNDERLINES** that external factors and internal practices may have impact on incubators' success and that good management and performance of the incubators should be assessed separately from clients' commercial and business decisions and their related impact of the life cycle of the enterprise; **CALLS ON** Member States and the Commission to improve the programmes and procedures followed with the aim to enhance the effectiveness of newly founded incubators thereby contributing positively to the development of SMEs;

- (8) RECOGNISES that, in the context of shared management, measures should be taken by all actors involved at the Commission and Member States' level to improve the performance and overcome difficulties and weaknesses such as lack of expertise concerning incubation practices, insufficiently developed monitoring systems within the incubators, inadequate business models, in particular with regard to financial sustainability, shortcomings in the management systems and lack of evaluation of expected benefits for the regional economy;
- (9) TAKES NOTE that the audited ERDF incubators had not made sufficient use of good practices partly also because of the lack of experience of some business incubators and lack of disseminated best practice from established successful business incubator networks, ENCOURAGES Member States and the Commission to continue their efforts to better learn how to effectively use these incubator infrastructures to support new business ideas and start-up enterprises;
- (10) TAKES NOTE that one of the difficulties in achieving the expected results of a business incubator is related to the mismatch between the regulation minimum length of the sustainability period (5 years) and the characteristics of the business incubation process, and ENCOURAGES Member States to take into account the good practice examples concerning the sustainability period presented in the Court's Report in order to overcome this problem;
- (11) TAKING into consideration the Court's recommendations, INVITES the Member States, when planning, selecting and monitoring co-financed incubators, to take into account, where appropriate and in full compliance of the shared management principles, inter alia, the following requirements: the evaluation of expected results in addition to the delivery of physical outputs, reinforced expert knowledge during the project assessment process and stronger linkage between the level of public support and the results, detailed and realistic business plan, suitably skilled staff, appropriate development strategy, detailed tailor-made incubation programme for clients and evaluation of its results, setting-up of networking and links to other incubators, the setting-up of a monitoring system based on data produced by supported clients without increasing the administrative burden on these clients and the sustainability after the financing;

- (12) INVITES the Commission to continue updating the knowledge concerning the effectiveness and efficiency of business incubation and to reinforce its efforts to support the community of business incubators and in particular those in receipt of EU support, for instance by organising the promotion and dissemination of good practices and experience exchanges with the responsible bodies in Member States;
- (13) RECALLS that the newly reformed cohesion policy regulatory framework for the 2014–2020 programming period already answers to many of the Court's recommendations because it is more result-oriented and more focused, from the start of the programming process, on a performance framework approach for each operational programme and on the reinforcement of the ex-ante conditionalities related to SMEs development, and UNDERLINES that this new regulatory framework reinforces SMEs competitiveness by better targeting SME support in the Operational Programmes and developing a comprehensive and coherent policy approach that combines a range of instruments available, including financial instruments, SME support services and public procurement possibilities;
- (14) UNDERLINES that the methodology of the audit is not always clear and has the bottleneck of a limited audit sample and INVITES the Court to ensure that recommendations are based on a representative audit sample, whose findings are contextualised and adequately differentiated according to the situation of the Member States.
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