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Business Incubators Are Best Investment of Public Dollars, Study Says

ATHENS, Ohio—At a time when the U.S. Congress and President Obama are considering investing \$850 billion to create jobs, a recently announced study clearly proves that business incubators need to be part of the job creation equation.

According to a research study conducted for the U.S. Department of Commerce Economic Development Administration, business incubators provide communities with significantly greater results at less cost than do any other type of public works infrastructure project.

In the study of the economic impacts and federal costs of EDA construction program investments, researchers found that business incubators are the most effective means of creating jobs – more effective than roads and bridges, industrial parks, commercial buildings, and sewer and water projects. In fact, incubators provide up to 20 times more jobs than community infrastructure projects (e.g., water and sewer projects) at a cost of \$144 to \$216 per job compared with \$2,920 to \$6,872 for the latter, the report notes.

“We agree with investing in highways, bridges and other elements of our aging infrastructure,” says Dinah Adkins, president & CEO of the National Business Incubation Association, a 1,900-member organization representing incubation programs in 59 countries. “However, business incubators are critical components of the nation’s entrepreneurial support infrastructure and the only public works projects that were designed entirely as job generators. It is vitally important that the nation leverage its existing investments in incubators to generate new jobs and innovations and to help individuals facing layoffs to start their own firms,” Adkins says.

The responsible solution, she notes, is not choosing between roads and bridges or incubators but in ensuring that incubators, which have proven themselves to be the most significant generators of new jobs, are not left out.

Business incubation programs provide entrepreneurs with a guiding hand to help them turn their ideas into viable businesses. Since the first incubator opened in Batavia, N.Y., 50 years ago, incubation programs around the world have been providing client companies with business support services and resources tailored to young firms to help increase their chances of success.

The EDA study, “Construction Grants Program Impact Assessment Report,” was prepared by Grant Thornton and announced earlier this month in an EDA newsletter. In a recurring theme throughout the study, the authors note that “EDA’s strategic focus on innovation and entrepreneurship makes sense, in that investments in business incubators generate significantly greater impacts in the communities in which they are made than do other project types.”

The report also notes that, by dollar invested and by number of projects funded, business incubation programs have historically been the least well-funded of EDA’s public infrastructure projects.

Another EDA-funded study in the mid-1990s found that 87 percent of all firms that had graduated from NBIA member incubation programs were still in business – and about 84 percent of those graduates remained in the incubator’s community. “The jobs created by incubators aren’t one-time construction jobs,” Adkins explains, “but enduring, high-paying positions that contribute to community and U.S. global competitiveness.”

NBIA estimates that in 2005 alone, North American incubators assisted more than 27,000 start-up companies that provided full-time employment for more than 100,000 workers and generated annual revenue of more than \$17 billion. Many thousands more jobs have been created by companies that have graduated from these programs and now operate self-sufficiently in their communities.

The Grant Thornton study showed that on average, EDA investments produce between 2.2 and 5.0 jobs per \$10,000 in federal spending, for a federal cost per job of between \$2,001 and \$4,611. Business incubators create between 46.3 and 69.4 jobs per \$10,000 in federal investment, for a federal cost per job of between \$144 and \$216.

“While investments in best-practice incubators have always shown high returns, maintaining and expanding these programs is even more important, given the fast-declining economy,” says Adkins. “Any economic stimulus should take into account the importance of our nation’s entrepreneurs and be based on verifiable data about program impacts.”

For more information about business incubation and the EDA study, visit www.nbia.org/works.