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The Role of Business Incubators and Accelerators in Entrepreneurship Support

Business incubators and accelerators are entrepreneurship support programs designed to help startup businesses develop and grow. Incubators and accelerators are operated by a variety of entities, including for-profit businesses, institutions of higher education, and local governments. Depending on operator and model, they may offer their services for free, or in exchange for a fee or an equity stake. The role of incubators and accelerators in supporting startups has gained attention as certain participating businesses have gone on to achieve multibillion dollar market capitalizations.

Some analysts trace the founding of the first business accelerator in the United States to 2005. The number of accelerators has grown since; the U.S. International Trade Administration (ITA) estimated that by 2023 there were at least 150 accelerators in the country. Worldwide, one study found that accelerator-related investment in startups grew from less than $5 billion in 2014 to $50 billion 2018. (Similar data on incubators is not available.)

The federal government operates several programs that support business incubators and accelerators. This In Focus identifies the commonly-accepted features of incubators and accelerators, reviews several studies about the impact of incubators and accelerators, summarizes select federal programs supporting incubators and accelerators, and presents possible considerations for Congress.

Defining "Incubators" and "Accelerators"

There is no universal standard of what is considered a business incubator or accelerator. The federal government likewise does not offer common definitions of the terms. However, practitioners and researchers commonly point to certain qualities as being characteristic of the types of programs considered to be incubators and accelerators.

Incubators are designed to support entrepreneurs in the very early stages of business development. Often at this stage, an entrepreneur may have only an idea for a business, and has not yet created a business model or developed the idea into a so-called "minimum viable product." Unlike accelerators, startups often participate in an incubator for several years, and the incubator may sometimes provide physical workspace. In addition, incubators may provide additional business services such as legal consultations and networking opportunities. Incubators may sometimes provide some seed capital, although they are generally less likely to do so than accelerators.

Accelerators are intended to boost the growth of startups that are further developed than those participating in business incubators. Accelerators are usually cohort-based programs (meaning a number of startups participate at the same time and on the same schedule), run for a fixed term (usually several months), provide intensive mentoring, and often culminate in a "demo" day, where entrepreneurs present their business to potential investors, the media, and other audiences. Unlike incubators, accelerators often provide a small stipend or seed investment in exchange for some equity in a startup—usually around 5% to 7%.

How Effective Are Incubators and Accelerators?

Researchers have attempted to study the various impacts of incubators and accelerators on startups. These studies frequently assess certain outcomes of startups that participate in an incubator or accelerator, including survival rates (meaning whether a startup remains in business after a certain period), amount of financing raised, and number of employees hired. Although much of the research finds high-level benefits to startups from participating in incubators and/or accelerators, some findings are mixed—perhaps due to the relative newness of the concept of incubators and accelerators.

Fewer studies have focused on the effectiveness of incubator participation as compared to accelerator participation, though research done in a 2015 study found that incubators have a "significant positive impact on firm job creation." In reviewing literature from other research conducted on incubators, the same study concluded that while positive, the findings on job creation and revenue growth were generally modest.

Other research found that the effect of incubators on startups was nuanced, and depended on their geographic location and surrounding business environment. For example, a 2020 study noted that incubators were more likely to increase firm survival rates if they were located in either dense urban areas with significant industry specialization—where incubated firms could benefit from greater access to knowledge and resources—or in rural areas with highly diversified economies, where there may be less competition.

Most research on accelerators has found that the programs have positive benefits on startups, including enhancing startups' capacity to raise capital and increasing startup survival rates. A number of studies have found that startups that participated in and graduated from accelerators were able to raise venture funding more quickly and in higher amounts than startups that did not. Research published in 2024 found that startups that went through an accelerator raised 50% to 170% more from investors than did similar startups that applied but were not accepted into the same accelerators.

Other evaluations provide less straightforward findings. One 2020 paper found that some, but not all, startups that participated in accelerators were able to raise more capital than startups that did not participate in an accelerator. Other research found no statistically significant differences in the speed with which startups that had participated in accelerators were able to be acquired, increase their number of employees, or raise over $1 million in venture funding, compared with startups that had not participated in an accelerator.

Some researchers have also assessed the impacts of accelerators from a regional perspective. A 2019 study noted that the founding of an accelerator in a region was associated with increased seed and early-stage funding for startups throughout the entire region—not only for startups participating in the accelerator. Similarly, a 2014 study found that metropolitan statistical areas (MSAs) that gain an accelerator experienced a 104% increase in venture capital deals across the MSA. The study also pointed to other research indicating that these increases accrued to businesses throughout the MSA, and were not concentrated only in startups participating in the accelerator.

Selected Federal Programs

The federal government operates a number of programs that support business incubators and accelerators. Some programs focus on certain types of businesses or business owners, such as minority entrepreneurs, tribal entrepreneurs, or technology-focused startups.

The Capital Readiness Program (CRP), operated by the Minority Business Development Agency (MBDA), is funded by the Department of the Treasury's State Small Business Credit Initiative (SSBCI), which the 117th Congress reauthorized in the American Rescue Plan Act of 2021 (P.L. 117-2). In August 2023, the Biden Administration announced a total of $125 million in one-time CRP awards to 43 entities to help open incubators or accelerators. The program was designed to prepare minority and other underserved entrepreneurs to secure capital from SSBCI and other sources. (In addition to CRP, SSBCI provided funding to states to help them create or expand small business investment programs.)

DOE's Office of Technology Transitions (OTT) administers the Energy Program for Innovation Clusters (EPIC). EPIC funds regional incubators and accelerators that support energy-related technology innovation clusters, entrepreneurs, and startups. In November 2023, EPIC awarded a total of $2 million to four incubators; OTT anticipates awarding $4 million in the next round of EPIC funding.

SBA's Growth Accelerator Fund Competition (GAFC) provides financial support for accelerators assisting science, technology, engineering, and math (STEM)- and research and development (R&D)-focused small businesses and startups. The GAFC targets accelerators that support businesses or geographies that traditionally face barriers in obtaining R&D funds and investment capital: businesses owned or led by women, minorities, and veterans, or businesses located in rural areas. Most recently, SBA made $2.6 million in GAFC awards in April 2024.

The Department of the Interior's Bureau of Indian Affairs (BIA) administers the Indian Business Incubators Program (IBIP). The 116th Congress authorized IBIP in the Native American Business Incubators Program Act (P.L. 116-174). IBIP awards funds to tribes and tribal organizations to establish and operate incubators. In November 2022, BIA announced approximately $2.9 million in total IBIP awards to 10 tribes and tribal organizations. BIA's FY2025 budget request included a proposed $1.2 million increase for Community Development Oversight, which the budget justification indicates would include IBIP administration, among other programs.

Considerations for Congress

As mentioned, some research has indicated that accelerators can positively impact the ability of all startups in the accelerator's region—not just of those participating in the accelerator—to access funding. One reason for this may be that, as potential out-of-town investors assess the viability of startups participating in the accelerator, they may also take the opportunity to evaluate other area startups.

ITA found that 40% of accelerators throughout the United States were located among three metropolitan areas: Baltimore, Denver, and San Francisco. Although the remaining accelerators are, to some degree, disbursed across the country—ITA noted that the other 60% of accelerators were located in 28 different metropolitan areas—Congress may have an interest in monitoring the continued concentration of incubators and accelerators in certain locations.

Congress may also be interested in whether incubators and accelerators influence the *formation* of startups. ITA noted that, as of 2023, there were nearly 3,000 startups located across 48 different states. At the same time, ITA found that there were accelerators in 27 different states. This may suggest that the presence of an incubator or accelerator is not a decisive factor in an entrepreneur's decision to start a business. Nevertheless, Congress may still want to know if there is an association between the presence of an incubator or accelerator and the rate of startup formation—a question the academic literature has largely not answered.

In February 2024, the Department of Commerce's National Advisory Council on Innovation and Entrepreneurship (NACIE) published a report on enhancing U.S. competitiveness through entrepreneurship. The report recommended establishing a national network of accelerator, mentorship, and investment programs to expand entrepreneurship. Congress could consider whether and how to implement this recommendation.

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