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COVER NOTE

From:	Presidency
To:	The High Level Working Group on Competitiveness and Growth
Subject:	Supporting European Start-ups and Scale-ups Discussion paper for the High Level Working Group on Competitiveness and Growth

Delegations will find in Annex a Note by the Slovak Presidency in view of the meeting of the High Level Working Group on Competitiveness and Growth on 4 July 2016, on Supporting European Start-ups and Scale-ups.

Supporting European Start-ups and Scale-ups

Europe has been recovering from its most severe economic crisis in its history. Overall, the EU average annual growth rate of innovation performance has reached 1.0% over the eight-year period of 2007-2014 with most Member States improving their innovation performance. The flexibility of European businesses has been put to the test, forcing them to take precautionary measures and optimise their processes. Yet, the European entrepreneurial environment has been convalescing at fast and steady pace - with 2,3 million new businesses established in 2012 alone, adding 3,5 million jobs to the job market¹. 8 out of 10 of the jobs generated in the EU since 2008 were created in Small and Medium sized Enterprises (SMEs).² More importantly, the birth-rate of business surpasses their death rate, according to latest figures³.

European start-ups, young, and fast-growing businesses, creating jobs and economic growth in Europe, are not only the carriers of innovation - they are of crucial importance for innovative industries and traditional businesses alike. Nevertheless, European start-ups and scale-ups still face a number of challenges.

Identifying areas for imminent action

First and foremost are the policies, measures and incentives aimed at supporting the creation of start-ups and specifically targeting the high-growth companies, scale-ups, on their path towards successful exit strategies at the EU, regional, and Member State level. To best benefit businesses at any stage of their development cycle, the complementarity and clarity of policies and measures should be strengthened. It can be a challenge for entrepreneurs to seek public or private financing and apply for fundings, to access larger markets and customers and to hire qualified skills and find partners. Those that do could face an information gap.

¹ [Eurostat, Business Demography Statistics \(Luxembourg: Eurostat, 2014\).](#)

² [Enhancing Europe's Competitiveness Fostering Innovation-driven Entrepreneurship in Europe.](#)

³ [Eurostat, Business Demography Statistics \(Luxembourg: Eurostat, 2014\).](#)

But the main impediment for rapid growth of start-ups in Europe is the single market itself. Developing businesses are still faced with 28 markets. Administrative and financial burden arising from different VAT and regulatory regimes. Cross-border sales and delivery remains to be removed in order to encourage and support free circulation of goods, services and capital. Creating an interconnected EU wide start-up and scale-up ecosystem where innovations, talent and knowledge – of both entrepreneurs and their employees can flow is of most importance.

Inextricably linked to this is the myriad of opportunities presented by a unified, Digital Single Market, its potential yet to be unleashed at the EU-level. At the moment, as little as 7% SMEs (including start-ups and scale-ups) sell across borders within the EU and take full advantage of what is a market of over 500 million customers. However, should the EU become a true Single Market with harmonised e-commerce rules and regulation, 57% SMEs would engage in online sales, servicing customers across borders⁴.

For the majority of start-ups, finding the right sources of financing remains the biggest concern. 79 % of European entrepreneurs say that it is difficult to start a business due to lack of financial support⁵. Financial instruments and advisory support such as the Competitiveness of Enterprises and SMEs (COSME) programme, Horizon 2020, especially the SME instrument, EEN Network, Digital Agenda for Europe, Startup Europe Road Show, Structural Funds, the European Investment Bank and the European Investment Fund, Erasmus for Young Entrepreneurs exchange programme or 'Ideas from Europe' scale-up lab aim to close this investment and information gap. EU and Member State (MS) level financing – financial instruments and grants - should be coupled with reinforced / complemented private investment, in a smart way, fostering trust among business and investors.

⁴ [European Commission, 2016. Digital Single Market](#)

⁵ [European Commission, 2013. Entrepreneurship in the EU and beyond](#)

Future-oriented solutions

To enhance the success rate of start-ups and scale-ups to receive the investment, they seek new alternative ways should be added to the investment portfolio. Indeed, the financial ecosystem in the EU hampers the scaling up of European start-ups, which often take advantage of the US financial markets to access second and third rounds of financing, or to go for IPOs. It is a fact that, in the ranking of the top global "unicorns", only less than a dozen are European. Further developing alternative sources of finance such as crowd funding, peer-to-peer lending, stimulating stronger angel investments and venture capital, as well as increased use of an innovative approach to valuation of IPR and Innovation Procurement may help address the public sector challenges. In particular, the latter also helps expose public sector institutions to innovation and creates new markets for innovative solution, even in their pre-commercial stage.

In context of the current focus on the smart transformation of European industry, both EU and Member State action should count with the active involvement of European start-ups and scale-ups. Exposure to new technologies, for instance by creating incentives for uptake of new technology and participation in supply chains, using new business models would spread innovation. Also, clusters can greatly improve their companies' innovation capacity. The importance of rewarding risk-taking attitudes from idea generation to innovation should be a continuous focus. Collaboration of industry and larger corporations with start-ups and scale-ups should be encouraged - large and often slow-to-adapt companies can greatly benefit from what is becoming increasingly known as the Open Innovation Model.

Support beyond investment

Besides measures of financial support and harmonization of rules within the EU, the EU and Member States alike can offer start-ups and scale-ups considerable indirect support. Enhanced focus on entrepreneurial and specialised skills will help equip future generations of business leaders and inventors for success, and foster entrepreneurial culture.

Creating a new type of small, pan-European “innovative” company statute can make it easy to set up, register and comply with cross-border rules. Recruiting human capital from outside the EU, facilitated by a pan-European Start-up-visa programme, can add to the innovative capacity of developing businesses.

Last but not least, start-ups and scale-ups companies have an important role to play in local and international triple helix ecosystems. Motivated by financial support or private sector incentives, they should be involved in projects of applied R&D&I, as part of technology transfer centres, accelerators, innovation hubs and mobility programmes, and possibly even joint ventures of spin-offs.

A coordinated approach for more impact

It is considered that needs of start-ups and scale-ups are likely to diverge as they are at different growth stages, in different sectors, types of product or service, or follow a different business model etc.

To address the real bottlenecks to growth of innovative companies, both start-ups and scale-ups, it is necessary to implement the correctly designed company-specific support policies. However, these should be complemented by an ecosystem-approach which considers the entrepreneurial dynamic as a whole and engages broadly with multiple different stakeholders that make up the ecosystem.

EU institutions’ support of the innovation ecosystem in the EU has resulted in a number of successful initiatives. Going forward, the institutions, programmes and instruments aimed at supporting and stimulating innovation should be user-focused, addressing grand societal challenges, while fully taking into account entrepreneurship as a game changer.

In their meeting on 17 June, the SME Envoys discussed possible measures for start-ups and scale-ups. They agreed with the statement made above that start-ups and scale-ups cannot be generalized. At this early stage, and before the results of the public consultation are known, the Envoys touched upon possible actions such as:

1. Closing the information gap on start-ups and scale-ups by creating a virtual Start-up/Scale-up Observatory, similar to the Cluster Observatory. This observatory would also serve as a basis for policy labs to experiment and test potential policy initiatives before they are rolled out.
2. Looking into means to encourage private equity investors to take more risk when investing in innovative companies with a yet unknown potential for high growth; this could be made easier with the help of a public experimental fund.
3. Continue closing the skills gap for potential scale-ups, in particular regarding financial and managerial skills.
4. Continue to lower regulatory hurdles, in particular for intra-Single Market operations.

Acknowledging the work and progress in this area done by the European Commission, the High Level Group on Competitiveness and Growth (HLG) invites the respective DGs to take part in the dialogue of the HLG on supporting entrepreneurship in the EU. As part of the working programme of the current EU Presidency Trio, Slovakia took the lead to work on the Start-up initiative with DG GROW and the Startup Europe initiative of DG CNECT. A questionnaire on start-up policy in Member States was coordinated by Slovakia. The main results and two concrete findings of the questionnaire will be highlighted in the HLG. In light of this, this discussion in the HLG aims to activate the HLG-“think tank” role to help complement the initiatives of the Commission.

Composed of capital-based MS representatives, the HLG can also provide accounts of best and worst practice from MS, and give feedback on the strategic direction and concrete measure planned for implementation (eg. taxation of stock options, modernised bankruptcy laws).

Moreover, as a policy instrument, DG CNECT is in the process of putting forward recommendations to EU, MS and industry itself in collaboration with the start-up community for the Digital Assembly in Bratislava 28-29 September, supporting the ability of start-ups to scale-up their business is due to be presented in September across Europe. We should use this momentum for awareness rising and an aligned direction of policy support. The discussion aims to enable the HLG to make itself useful to the Commission as it moves forward with this initiative.

Questions for discussion

1. What is the competitive advantage of Europe vs. US when it comes to 'doing business'? How can we identify/develop a more friendly business ecosystem/business environment to ensure that our entrepreneurs and start-ups will remain/come back to Europe? What are the best examples of such measures in the Member States? How they can be adapted and complemented at EU level? What should be the role of the EU?
 2. What are the current technical and non-technical barriers that you have identified as the main obstacles when implementing the measures of the start-up Manifesto to generate Start-up growth in your Member State?
 3. How can we monitor and quantify implementation of specific start-up and scale-up policies? How can we best ensure that these specific policies are inclusive for all the relevant stakeholders within the innovative ecosystem?
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