



# STARTUPS' RECOMMENDATIONS

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for the post-COVID-19 economic recovery

*July 2020*



# Executive Summary

**THIS DOCUMENT OUTLINES 13  
CONCRETE RECOMMENDATIONS  
FROM STARTUP ORGANISATIONS  
TO NATIONAL GOVERNMENTS  
AND INTERNATIONAL  
ORGANISATIONS**

Startup communities are playing a key role in building a green and digital economy post-COVID-19. This document outlines 13 concrete recommendations from startup organisations to national governments and international organisations in the fields of investment, talent and policy. It is all a call to the European Union and governments across the globe to provide startups with financial and political support, empowering them to thrive and build the economy of the future.



**In collaboration with Allied for Startups' COVID-19 Working Group :**



# 13 Recommendations

1. Adapt the Temporary Framework on State aid liquidity

2. Balance safeguards and financing needs of the economy

3. Design EU funding programmes for startups

4. Unleash private capital through a multi-tier plan

5. Strengthen the roles of public funding

6. Formulate procurement rules that are more open to startups

7. Create an EU wide startup visa

8. Unify and extend stock options schemes at the EU level

9. Promote digital and entrepreneurial skills in education

10. Provide entrepreneurs with a digital one-stop shop.

11. Shape legislative tools that welcome innovation

12. Harmonise EU rules in the Single Market

13. Enhance and simplify global trade for startups to scale



# INTRODUCTION:

Startup communities are playing a key role in building a green and digital economy post-COVID-19. Startup organisations **are sharing 13 concrete recommendations and urge the European Union and governments across the globe to provide startups with financial and political support, empowering them to thrive and build the economy of the future.**

The world is experiencing the largest digital transformation in its history. Over 3.9 billion people, half the world's population, have been quarantined in 2020. This has triggered a digital wave that has transformed our lives. Telework and video conference platforms have more than tripled as people work from home. E-commerce and food delivery platforms have doubled in size. Gaming, delivery, e-sport, ed-tech are all sectors that have exponentially grown during the COVID-19 crisis, providing solutions to everyday problems during the lockdown.

The lockdown, however, has also had a large economic impact, which has led to higher unemployment and exclusion. For this reason, now more than ever, governments should support and invest in startups as the biggest job creators in Europe and beyond. Since the beginning of March, 48% of startups globally have hired new employees and 78% plan to hire new employees before the end of the year[1].

Moreover, the European Union has unveiled its recovery plan - Next Generation EU, with a dual focus on digital and green growth. **We believe the next generation of businesses and commerce in Europe should have startups written all over it!** Startups design, build and scale groundbreaking innovations, providing technical solutions to our biggest challenges and offering new services and products to benefit citizens.

The great digital leap resulting from the COVID-19 crisis will not be without consequences for public institutions and companies. Making the economic leaders of tomorrow a central piece of the economic recovery should be the new way to approach our future economy. Startups are global from day one. Any new policy measures that apply to them should be seen through this perspective.

By streamlining our production and consumption methods, startups' solutions can ensure the continuity of public services, create quality jobs and accelerate the digital transformation and the environmental transition.

**Startups communities in Europe and around the world are asking for more than a life-support plan.** They want to contribute to and be part of a new wave of founders tackling the big questions of our time. They can be empowered by legislation that focuses not only on starting up, but also on scaling up. Such legislation should be coupled with the right incentives for entrepreneurs to spend their time doing what they are good at - innovation - in order to build the digital and green economy of tomorrow.

[1] Source: <https://data.stationf.co/#employment>

# INVESTMENT

## 1

### State aid - Adapt the Temporary Framework on State aid liquidity to ensure that startup ecosystems receive the same support as other economic actors

More flexibility should be given to Member States in order for them to provide liquidity support to startups.

Urgently reform the definition of “Undertaking in difficulty” as defined in point 18 of Article 2 of the General Block Exemption Regulation (GBER). This definition is raising concerns:

- Particularly criteria (a) and (b) which include **UIDs** (undertakings-in-difficulty) whose accumulated losses are greater than half of their share capital. A wide range of startups in Europe fit this description despite not actually being in difficulty. The result of the current definition is that startups are being refused State aid on the grounds that it would be in violation of European rules.

Going forward, for the purpose of providing startups with State aid as well, ensure that the UID definition revision works for startups in the long run. If necessary for State aid purposes, design a startup definition that encompasses the startup ecosystem, building on the fact that startups reflect future potential and may not have generated revenue yet.

- Collect, compare and share the existing startup definitions, learning from established best practices.

- Explore alternative instruments to ensure State aid arrives in startup ecosystems. For instance, some Member States implemented a specific attractive status for young innovative companies, which provided governments with the legal framework to offer tailored recovery instruments, tax credit for R&D and served as an eligibility criterion for the emission of Tech Visas, etc. For example, France implemented the “Jeune entreprise innovante (JEI)” status which requires:

- Being an **SME** (Company employing less than 250 employees, with either an annual turnover of less than €50 million or a balance sheet total of less than €43 million. Exceeding the threshold has effect only after 2 consecutive financial years.)
- In case a startup scales beyond this status rapidly, a credit system can smoothen the transition outside of the scope of the definition.
- Being less than 8 years old (the company definitively loses the status when it reaches 8 years).
- Being independent. Capital of the company must be at least 50% owned by individuals or by other Young Innovative Companies that are at least 50% owned by individuals. The company must also incur R&D expenses which sum up to >15% of the tax-deductible expenses for that year.

# INVESTMENT

## 2

### Balance safeguards and financing needs of the economy to ensure that private investors can assist in the recovery by Foreign Direct Investments (FDI).

Foreign investors are significant contributors to the financing of our technology ecosystem. In 2019, 21% of investments in European startups were led by at least one American or Asian investor (compared to 10% in 2014). Since the outbreak of the coronavirus pandemic, many governments have erected barriers to prevent foreign investors from taking control of strategic companies. At the European level, the doctrine vis-à-vis foreign investors is evolving rapidly. At the end of March, President of the European Commission, Ursula von der Leyen, urged Europeans to "protect their security and economic sovereignty". A key component for startup ecosystems in Europe remains foreign investment rules that are workable.

- The criteria for controlling the entry of investors in the capital of a European company should not be based on the technology used by the company (e.g. AI) but on the scope of application of that technology (e.g. management of vital infrastructure);
- The requirement for the potential investor to take on specific commitments must remain exceptional and perfectly detailed if necessary;
- The investment process should not be prolonged excessively by the FDI control mechanism. Taking into consideration the dynamics of the investment market, the long process of FDI screening can prevent non-EU companies from conducting business transactions;
- FDI screening regulations across Europe should introduce exclusions for investors from trusted jurisdictions, such as the Organisation for Economic Cooperation and Development (OECD) countries, from their regimes.

## 3

### Ambitious EU budget - EU funding programmes should be designed and made easy for startups to benefit from them.

Negotiations for the European Union's pluriannual budgetary framework are entering a decisive phase. This budget will determine what the European Union will be able to deliver in this strategically decisive sector. Putting digital at the heart

of European recovery also means dedicating funds to underline this interest, which includes increasing the budget allocated to innovation in the next European Pluriannual Financial Framework.

# INVESTMENT

- Increase resources for Horizon Europe: While the Commission proposed a budget of €94.1 billion for Horizon Europe, this amount needs to be reassessed in the light of the current economic and health crisis. The budget allocated to Horizon Europe should be at least €120 billion, as proposed by the European Parliament.
  - Expand EU digital capabilities with Digital Europe: The Digital Europe programme should invest in critical and strategic sectors, in particular Artificial Intelligence and cybersecurity. The budget allocated should be at least €15 billion (€9.2 billion currently planned for 2021-2027).
  - Encourage intra-European investment by raising an ambitious vision of the InvestEU programme to €100 billion during the forthcoming negotiations on the multi-annual budgetary framework.
- Next Generation EU** - Design a comprehensive European recovery plan, with funding conditional on commitments on digital switchover and green guarantees. During the COVID-19 crisis, startups have proven they are part of the solutions of today's challenges such as the protection of the environment and the digitalisation of the economy. The European recovery fund should put startups at the center stage of its financial support.

## 4

### Multi-tier plan to unleash private capital - Mobilise private funding via VCs, Business Angels and other types of investors

Business Angels provide seed or pre-seed financing for startups. This equity contribution is often the main - if not the only - financing option when creating a startup. It is also an essential prerequisite for obtaining capital from banks: the loans made available to startups are proportional to the equity of these companies.

In the United Kingdom, the regulatory and tax conditions are largely favourable to venture capital and investment, particularly in promising technologies, not only for startups (Seed Enterprise Investment Scheme) but above all for scale-ups (Enterprise Investment Scheme).

- Set up an incentive scheme in every EU Member State similar to the UK's EIS, SEIS and SITR instruments. The promotion of a "SEIS-alike" clause in the EU Startup Nation Standard will be a prime example to illustrate what Governments can do to facilitate access to finance for startups.
- Increase significantly the tax relief for investment in startups in the Member States, allowing capital losses on securities to be offset against all taxable income (and not only against capital gains). Thus, Business Angels who make a capital loss on a holding will be able to offset the losses against all income (and not only, as is the case today in some Member States, against possible future capital gains of the same kind).



# INVESTMENT

## 5

### Public funding - Strengthen the roles of the European Investment Fund and the European Investment Bank as financial partners of startups and VCs.

European financial institutions have the potential to facilitate direct investment in startups. The emergence of startups depends on the multiplication of sources of seed funding and European financial institutions are a source guaranteeing stability for startups and VCs.

- Support startups in their first stage: The European Investment Bank should offer bounce-back loans that are guaranteed against government collateral and interest-free in the first year.
- Strengthen the development of business angels in Europe by extending the European Angels Fund (EAF) of the European Investment Fund (EIF) to other EU countries (the EAF exists in Austria, Denmark, Finland, Germany, Ireland, the Netherlands and Spain). One way to do it is by contracting co-investment agreements with business angels selected on the basis of their investment capacity (+ €250K over 10 years) and their track record. The EAF will be able to co-invest with the selected Business Angel a venture between €250K and €5M.
- The European Investment Fund should create a tech buy-out fund to accelerate direct and indirect shareholdings in strategic sectors for Europe (health, cybersecurity, Artificial Intelligence, quantum computing, blockchain, etc.).
- Tech buy-out is the purchase of a majority of the shares of a startup by a private equity fund aiming at carrying out an internal reorganisation or even strategic mergers between complementary companies. Its objective is to create a more efficient company, and potential EU champion;
- Increase the EIF's direct investment volumes in co-investment with venture capital funds, Bpifrance, KfW, and other national investment banks;
- Increase in 1-for-1 partnerships or co-investments with VCs, in the form of long-term loans with a 2-year grace period and/or convertible bonds;
- Set up a guarantee to Facilitate access for VC funds in times of disinvestment to credit lines to increase reserves for holdings located in Member States;
- Increase the EIF's holding ratio in the funds, by decision of the EIF;
- Devise an EU Entrepreneurship Grant for young European entrepreneurs to launch a technology-based product with a high capacity to scale;
- Implement a fast-track procedure for the analysis of investment dossiers within the EIF, including for new "first time teams" funds. Today, the procedure for analysing an investment dossier in a fund takes an average of nine months.

### Public procurement - Design procurement rules that are more open to startups

The current crisis has disrupted the use of digital technology by public services. Public procurement accounts for 14% of the EU's GDP. There is an opportunity to accelerate the digital transformation across the European Union by adapting public procurement to startups. Many contract offers are de facto unavailable to startups: the eligibility conditions do not always allow them to qualify for these markets. The procedures are slow: sometimes it takes longer than 6 months between the submission of a file and the response to a call for tenders (inappropriate response time for a young company in need of contracts); qualification criteria and thresholds are inadequate (turnover, institutional client relationships proofs, duration of existence, etc). The goal would be to achieve 20% of public procurement covered by startups or in cooperation with startups.

- Promote joint cross-border public procurement, including innovative procurement by large purchasers. The health crisis has demonstrated that the European Union can initiate joint procurement processes on behalf of Member States.
- Promote joint purchases, which could be an advantage for both industry and Member States (high visibility over time, prices, prior harmonisation of needs).
- Develop rules for European preferential purchasing. Part of European public procurement should be reserved for European companies, following the example of the United States.

## 7

### Startup Visas - An EU wide startup visa, as well as a global equivalent to simplify the recruitment procedure for startups

Startups visas should be updated to lower the administrative burden for startups when it comes to hiring talent from around the world, and be extended from not just founders, but also early stage employees and developers. This would enable such companies to obtain work permits for their employees and their relatives quickly. Moreover, it would strengthen Europe's attractiveness for international digital talent and enable intra-European mobility. By way of comparison, more than half of all AI jobs in the US are filled by foreign nationals.

- Use the "Startup Nations Standard" as common ground recommendations for attractive visa conditions for third countries. It should be based on established best practices in existing models in the above mentioned countries (France and the Netherlands in particular) to avoid fragmentation and new complexities.

- Create a special visa allowing non-EU citizens to come to a given EU country and then be able to work in another, with the same visa. The beneficiary of this visa will be allowed to work in the 22 EU countries that are members of the Schengen Area. This format of agreement, which could take the form of enhanced cooperation, similar to the European unitary patent model, would have the advantage of not frustrating global negotiations in the event that one or more countries did not wish to be associated with it. The FrenchTech Visa and the Estonian Startup Visa are two great examples of startups visas in the EU. Italy, Denmark, Ireland and the Netherlands have developed similar programmes. These countries could be the first adherents to such a European enhanced cooperation programme. Germany should be encouraged to lead and join this type of attractiveness programme.

## 8

### Stock Options schemes should be unified and extended at the EU level. Similar attractive schemes should be developed globally

The Startup Nations Standard is a new impetus for EU countries to create attractive conditions for Stock Options. The attractiveness of a startup is based on the interest of the mission, but also on the remuneration package offered. In practice, startups base their remuneration both on fixed and/or

variable components, but also on capital incentive mechanisms ("BSPCE" in France, or Stock Options). Equity participation mechanisms create a strong link between the startup and the employee, who is thus financially interested in increasing the value of the company.

# TALENT

EU Member States should work for the unification of Stock Options schemes across Europe, to avoid startups having to adapt to 27 different schemes and taxation. An EU harmonised Stock Options scheme should be open to as many startups and employees as possible, offering favourable treatment in terms of regulation and taxation. For example, due to restrictive legal and tax regulations, German Stock Options schemes are not very attractive for French entrepreneurs wishing to develop activities and recruit in Germany.

- Review the SME strategy in the light of the current crisis. This review should call for the urgent implementation of the "Startup Nations Standard", which contains improved Stock Options schemes for startups by Member States. The conditions recommended by the Commission should be based on established best practices, ideally modelled after existing frameworks in the United Kingdom or France to avoid fragmentation and new complexities.

- Analyse existing Stock Options schemes in France and in the United Kingdom to startups crossing certain thresholds, in particular:
  - The threshold of ownership of the company's capital by natural persons, directly or indirectly. Indeed, the financing of startups should be encouraged in all its forms - even if this financing leads to a dilution of individual shares. The latter is not contradictory with employee profit-sharing and attracting talent in a growing company;
  - A registration period of less than 15 years could be extended: to enable more mature companies to attract talent under attractive tax and social conditions.

## 9

### Digital and Entrepreneurship skills should be promoted in primary, secondary and university-level education

The development of new technologies in Europe necessitates that talent at all levels and in all fields be trained and qualified.

- Encourage free training in coding or entrepreneurialism for all audiences, at all ages (citizens, children, high school students, college students, job seekers, non-specialized employees).
- Leverage EdTech startups which offer online training courses through public contracts proposed by the national ministries (Education for the training of teachers and pupils; Higher Education to boost and strengthen university trainings; Ministry of Labour to include digital training modules in the training programmes of job seekers, etc.).



# TALENT

- Facilitate applications for the approval of certifying training courses. The procedures are long and complex (need for external advisory support). Moreover, they are designed and thought out in their criteria for in person training rather than online training.
- Encourage cross-borders skills exchanges programmes intra and extra-EU (e.g. Erasmus for Young Entrepreneurs) between universities, research centres and startups.

## 10

### Digital one-stop shop - Give entrepreneurs a central go-to point for all regulatory questions from the outset

Develop and complete the one-stop-shop that collects information, useful tools, and potential public funding programmes

- Recommend the implementation of a one-stop shop in each Member State for national rules and programmes. This could be included in the European Startup Nation Standard and promote existing frameworks like FrenchTech or TechLeap as best practices.
- Implement a EU one-stop-shop to help startups navigate through EU legislation and programmes and to reduce administrative burden on entrepreneurs.

## 11

### Sandboxes - Design legislative tools that welcome innovators

Regulatory Sandboxes have the opportunity to bring together policy-makers and innovators in a safe setting to develop pathways to compliance for individual startups. Startups are, by design, building innovative products and services in innovative ways. Based on the UK's FCA Sandbox for FinTechs, there should be a new initiative to establish regulatory

engagement early on and include it in a startups' design process.

- Design sandboxes for startups whenever there is sweeping new legislation where there is room for interpretation (e.g., when there is 'principle-based' legislation). Model these of best practices, for instance for FinTechs in the UK or from Estonia.

## 12

### Harmonised EU rules to avoid fragmentation in the Single Market

For startups, any new legislation in form of a directive that is implemented in 27 different legal regimes is an impediment to scaling up in Europe. Instead, wherever possible, rules should be harmonised from the outset.

- Conduct a startup Refit of the Digital Single Market EU directives to determine whether they pose a significant legislative burden for startups. Where this is the case, use the next Review of the legislation to minimise or remove this impact.

# POLICY

- Propose legislation that is harmonised by design in all Member States. Entrepreneurs might prefer to comply with a comprehensive regulation rather than 27 interpretations of a directive.
- Accompany the SME Strategy with a Scale-up Strategy, with a dedicated emphasis on startups to ensure that they can still scale their businesses easily across the continent.

## 13

### Global trade - as a key component for startups scaling abroad - should be enhanced and simplified

- Leverage the WTO and OECD to devise common frameworks for taxation.
- Use WTO & OECD bodies to underline the free flow of data and build robust data adequacy agreements. Commence negotiations on a data adequacy agreement as soon as possible.
- Tear down and prevent digital trade barriers, for instance removing data localisation measures in future EU trade deals, following the example of the EU's "Free Flow of non-personal data" Regulation and the EU-Japan data flow deal.

## CONCLUSION:

The COVID-19 crisis is an opportunity to adapt the economy to the world's biggest challenges. Startups are an integral part of this adaptation. With the right liquidity support, investment incentives and the regulatory framework, startups will be able to unleash their potential to the benefit of citizens and the economy at large.

