



# Action Plan to Make Europe the new Global Powerhouse for Startups

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*Challenging EU institutions and Member States. Where do we want to see Europe in the area of startups in five years?*

10 May 2021

## Executive summary

### *Today's situation*

Startups and scaleups are key to Europe's future economy and society. They are essential players to make the ambitions with respect to the European Green Deal and the European Digital Strategy a reality. Startups and scaleups are important in any innovation ecosystem that aims to deliver breakthroughs to the market. They are key in creating new jobs and sustainable European prosperity.

Currently, EU27 boasts more than 80.000 startups of which 51<sup>1</sup> are unicorns. The investments raised by European startups was 41 billion US dollars in 2020, up from 36,6 billion US dollars in 2019.

It has been reported<sup>2</sup> that during Q1 2021 27 innovative companies got a valuation of more than 1 billion US dollar in Europe, based on their latest funding round. At first glance, this is very positive news. However, a closer look reveals that only 13 of these companies were located in EU27 before the funding round, and that only 7 of them will stay in EU27 after the funding round, which paints a much bleaker picture. In the same period, the US produced 67 new unicorns.

### *Estonia: an EU best practice*

*Estonia has given birth to more unicorns per capita than any other country in the world. With 7 such companies for a 1,3 million population, this represents 1 case per 185.000 inhabitants. To put this in perspective: to achieve a similar feat, Germany would have to produce more than 400 innovative companies valued at 1 billion US dollars and France more than 300.*

### *Need for a "moonshot" project*

The contributors to this document believe Europe should considerably step up its ambitions. A desirable "moonshot" project would be to achieve **a growth of the number of unicorns of 10x in 10 years time!**<sup>3</sup>

To achieve these ambitious goals, the group of independent ecosystem leaders called upon by Commissioner Gabriel to give voice to the innovation ecosystems in the making of future EU Innovation Policy recommends a series of concrete actions, grouped below in 4 main themes.

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<sup>1</sup> Source: <https://europeanstartups.co/> , privately held innovative company with a value of more than 850 Mio EUR (corresponding to approximately 1 billion US dollar) headquartered in the EU (not acquired and not public). 12 April 2021.

<sup>2</sup> Source: Tech.eu: <https://tech.eu/features/37643/here-be-unicorns-these-are-27-billion-dollar-startups-minted-in-europe-in-q1-2021/> 6 April 2021

<sup>3</sup> So approximately an improvement of a factor 5 in 5 years time

## Overview of proposed actions

Theme 1: Definitions and data	
1.1	Defining key terms (Short Term action)
1.2	Data taxonomy and data collection measures (Medium Term action)
1.3	Open data (mixed Short Term and Medium Term action)
Theme 2: Talent	
2.1	Entrepreneurship education for children/youngsters (Short Term action)
2.2	Training for the general public by companies (Short Term action)
2.3	Encouraging university students to start a business ((mixed Short Term and Medium Term action)
2.4	Supporting female entrepreneurs (Short Term action)
2.5	Supporting communities of female entrepreneurs (Short Term action)
2.6	Fostering the creation of creative spaces/fablabs (Medium Term action)
2.7	Ensuring equal innovation opportunities wherever one is based (Medium Term action)
2.8	Scaleup fair (Short Term action)
Theme 3: Ecosystems	
3.1	Public procurement (mixed Short Term and Medium Term action)
3.2	Fostering open innovation (Short Term action)
3.3	Fostering spin-offs (Short Term action)
3.4	Co-create flagship projects to connect startup ecosystem players (Medium Term action)
3.5	Cross-border investment (Medium Term action)
Theme 4: Policy advising to Member States	
4.1	Special working group (Short Term action)
4.2	Tax incentives for growth (mixed Short Term and Medium Term action)
4.3	Ending tax bias favouring debt over equity (Medium Term action)
4.4	Employee stock options (ESOP) - not for all companies, but for startups/scaleups and unicorns (Medium Term action)
4.5	Pan-European Startup Visa ("Startup Green Card") (Medium Term action)
4.6	Insolvency / Restart / Corporate Law (Medium Term action)

Short Term actions are actions that can start in the next 1-2 years.

Medium Term actions are actions that can start in the next 3-4 years.

## Theme 1: Definitions and data

To correctly assess the growth of startups and to strengthen the EU startup ecosystem, it is important there are agreed definitions of relevant groups within the sector, the growth of which can be tracked over time using data collected from each member state.

This implies the following actions:

### Action 1.1: Defining key terms

The following terms lack a shared definition at EU level:

- Startup
- Scaleup
- Startup sector
- Large innovative company
- Stages of growth (of the startup)
- Deeptech
- Unicorn

*Enabler:* European Commission

*Outcome/KPI:* common use methodology/terms in all member states.

The approach could be inspired by the *Estonian example*<sup>4</sup>:

- **Startup** - a business entity (up to and including 10 years of operational history) belonging to a company headquarter in EU, which is starting activity with the purpose of developing and launching an innovative business model or technological component with high global growth potential, that is innovative and has the potential to significantly contribute to the development of the EU business environment.
- **Startup ecosystem** - the field and network of all participants related to startup entrepreneurship, which in sum impacts the development performance of startups and startup entrepreneurship in the EU.
- **Startup mindset** - an approach based on the cycle “Build, validate, learn” drawing heavily on creativity, flexibility, and entrepreneurialism; it drives the rapid execution of ideas and learning from results.
- **Startup sector** - an economic sector consisting of startups founded, incorporated, and or doing business in the EU.

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<sup>4</sup> [Startup Estonia White Paper 2021-2027](https://media.voog.com/0000/0037/5345/files/SE_Whitepaper_Web%20(1)-1.pdf),  
[https://media.voog.com/0000/0037/5345/files/SE\\_Whitepaper\\_Web%20\(1\)-1.pdf](https://media.voog.com/0000/0037/5345/files/SE_Whitepaper_Web%20(1)-1.pdf)

- **Scaleup** - a startup that has raised investments of at least 1 million euros, has at least ten registered employees and has an annual growth in employees and turnover of at least 20% within three years<sup>5</sup>.
- **Innovative company:** - a company that uses new ideas, building products or methods where they have not been used before. A product innovation is the market introduction of a new or a significantly improved good or service. A process innovation is the implementation of a new or significantly improved production process, distribution method or support activity for goods or services<sup>6</sup>.
- **Spin-off** - a legal entity established for the purpose of putting the results of R&D&I into practice with the ownership interest of the research organization.
- **Unicorn** - privately held startup company valued at over US\$1 billion.
- **Deep-Tech startup** (in process of validation in Estonia; as defined in Deep Tech Fund eligibility criteria):
  - The product or service is based on scientific advancement and development or meaningful engineering innovation;
  - The product or service development is based on or results in commercializable intellectual property and therefore it is not easily replicable.

### Action 1.2: Data taxonomy and data collection measures

Setting up a Pan European data taxonomy and clear data collection measures to enable the creation of an “*EU startups scoreboard*”. Such a scoreboard would facilitate tracking performances within the different national startup ecosystems and making comparisons between them.

#### *Enabler:*

The Innovation Directorate of European Commission’s DG R&I should be in charge of the *EU startups scoreboard*, which would complement the existing Innovation Scoreboard (now mainly focused on research and research-driven innovation) and the new Startup Nations Standard.

*Outcome/KPI:* A yearly updated EU Startup Scoreboard published by the Commission.

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<sup>5</sup> Alternatively, the definition could be based on product-market-fit, technology/products that can be mass produced and the process of scaling the organisation to support rapid expansion (i.e. investing in sales, HR, etc.)

<sup>6</sup> <https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Innovation>

### Action 1.3: Open data

Governments should make the data in their possession freely available to innovative companies, which would use them to develop new products and services and at the same time, innovative companies should share their data with Governments (especially at a local level) to help Institutions to introduce better data-driven policies. Several public institutions throughout the EU already made substantial steps in this direction, thus it would be beneficial to have an updated list of institutions that offer open data.

One should also reflect why similar well-meant initiatives from the past did not have the desired impact so as not to repeat the same mistakes.

*Enabler:* European Commission's DG DIGIT should lead in setting the stage for freely available data, showing the way to the Member States.

*Outcome/KPI:*

- Number of datasets that are available to the general public, and/or
- Number of (EU) institutions that have open data.

## **Theme 2: Talent**

A vibrant startup ecosystem needs a copious source of talented individuals. Therefore talent has to be fostered at all ages and for all genders without discrimination, so as to ensure startup founders in the EU are ready for the challenges of tomorrow.

This implies the following actions:

### Action 2.1: Entrepreneurship education for children/youngsters

Even though not all children/youngsters are expected to set their mind to start a company, it is nonetheless important to teach them what it means to develop an idea into a business venture. There is a strong need to finance and foster entrepreneurship education programmes for basic/secondary schools. Next to teaching students what it means to set up a company, have a team and present a business model (e.g., JA Worldwide) these also should focus on acquiring universal skills for any high added value job in the 21st century. Austria's example with 'Entrepreneurship Weeks' in schools could be considered at EU level.

*Enablers:* each member state should launch schemes supporting these programmes under the Ministry of Education through EU financed programs. European

Commission's DG EAC could coordinate at EU level. Smart ways to incentivise national education systems to embrace entrepreneurship should be investigated (such as competitions and benchmarking).

*Outcome/KPI:* proportion of supported students (e.g., 20 % of all students going to high school); number of apps/tools/games co-created by the students.

#### Action 2.2: Training for the general public by companies

Companies should be incentivised to provide training to schools, young entrepreneurs and the general public, since they are well positioned to offer effective support. An example of this kind of training would be [Elements of AI](#).

*Enabler:* the European Commission could help to enable this through its agenda, notably through the EIT (DG EAC) and the new Innovation Ecosystems Programme of HEU. It may be advisable to rapidly test and validate if this approach is suited to be implemented at a large scale.

*Outcome/KPI:* number of training programmes for the general public.

#### Action 2.3: Encouraging university students to start a business

A programme should be implemented that rewards university students for their worthy business ideas with a monthly stipend that would allow them to launch a business venture. The programme could be built to track the development of the business idea and set milestones to be achieved by the student (e.g., business plan, proof-of-concept or Minimum Viable Product within 18 months).

*Enabler:* the European Commission through the Erasmus Business Program, available for each Member State in cooperation with local universities. Furthermore, the new Transforming Higher Education Institutions programme from EIT could reinforce the support.

*Outcome/KPI:* number of companies created, number of products/services launched.

#### Action 2.4: Supporting female entrepreneurs

Only 8% of the startups are founded by an all-female founding team and 25% are founded by a mixed team that includes at least one male and one female entrepreneur<sup>7</sup>. Role models are fundamental to inspire young girls to become entrepreneurs and to remedy the paucity of female entrepreneurs in the EU. Therefore, successful female startup founders should be granted visibility to showcase their success through any

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<sup>7</sup> <https://europeanstartupmonitor2019.eu>

means available (e.g., traditional media outlets, social media, PR events, conferences, etc.)

*Enabler:* The new Women Tech EU programme could facilitate this action, as well as the new European VC Fund Managers Group and the EIT programmes targeted to women. Female founders should be encouraged to make an impact and not be “paraded” for PR purposes. The EU should adopt a gender balance policy for panels at EU level events.

Bottom-up initiatives should be supported instead of organizing new ones.

*Outcome/KPI:* higher number (absolute and relative) of female entrepreneurs. 50% female participation in all expert pools and investment/subsidy committees of Horizon, EIT, EIC, etc.

#### Action 2.5: Supporting communities of female entrepreneurs

Support should be granted to those organisations that focus on girls/women empowerment and on providing them with entrepreneurial skills. Interesting examples of such organisations are [Techgirlz](#), [Strong Women Strong Girls](#), [GirlStart](#), [Female Founders](#) and [GirlUp](#).

*Enabler:* the EIT and the new Innovation Ecosystems Programme of HEU could facilitate this action: bring organisations together, share best practices and provide funding.

*Outcome/KPI:* higher number (absolute and relative) of these organizations supported by EU financed programs. 50% increase in the number of female founders in the EU.

#### Action 2.6: Fostering the creation of creative spaces/makerspaces and fablabs

Multicraft/multidisciplinarity as a principle should be fostered in all its aspects. Arts, bio-tech, and sport expertise should be connected with startups, business, and public authorities.

It should be investigated how spaces can be provided where especially young or socially disadvantaged entrepreneurs can start a business for free until of relevant size / success / failure.

*Enabler:* DG R&I the Directorate on Industry 5.0 and the New Bauhaus project. It should be explored how EIT, EIC and Horizon Europe can support the creations of cross functional and cross-disciplinary hubs at universities combining common labs, clean rooms and co-work spaces, incubators etc.



*Outcome/KPI:* number of multicraft/multidisciplinary initiatives.

Action 2.7: Ensuring equal innovation opportunities wherever one is based

Entrepreneurs and innovators should not have less innovation opportunities because of where they are based (e.g., rural areas). A coherent innovation cohesion approach is needed to address the imbalances resulting from one's location. See StartupVillages as an example of a possible approach.

*Enabler:* appropriate synergies between existing programs such as Erasmus+, Horizon Europe and the Cohesion funds, combined with political leadership, would increase the innovation cohesion across Europe, both within and between member states.

*Outcome/KPI:* number of initiatives working on innovation cohesion across Europe, number of Startup Villages.

Action 2.8: Scaleup Fair

There is often still a large gap between scaleups and talent graduating from Business Schools. Whereas large corporations have long ago found the way to the campus of Business Schools to present themselves to top talent, scaleups are mostly neither well present nor well understood by the students. This jeopardizes the growth potential of the scaleups.

We therefore need to be more assertive in connecting the innovation ecosystem with business education. Scaleup fairs should be held at all Business Schools.

*Enabler:* matchmaking events between scaleups and talent from all European business schools supported by the EIT and EC (e.g., every top-20 business school graduate meets at least 1 unicorn).

*Outcome/KPI:* all graduates from European business schools meet at least 1 scaleup or unicorn before graduating.

**Theme 3: Ecosystems**

Startups are embedded in a system with interdependent organisations and participants including universities, governments, funding organisations, support organisations (like incubators, accelerators, co-working spaces etc.), research organisations, service providers (e.g., legal and financial services) and large corporations. This last category includes large international tech companies that bring a different quality to the ecosystem than traditional corporations. They attract the best IT talent, bring

professionalism, create employment opportunities for “failed” startup founders and are often a source of new startups.

It is of paramount importance to foster collaboration between these actors to create synergies. Strong ecosystems and strong startups go hand in hand.

This implies the following actions:

### Action 3.1: Public procurement

Public procurement represents 18% of European GDP. It has to be ensured that this important source of money is also used to purchase goods and services from startups based in the EU, so as to help the EU startup ecosystem thrive. Ideally, state-owned companies should be included in this approach.

*Enabler:* European Commission’s DG R&I and DG GROW could incentivise EU and national/local institutions, as well as state-owned companies, to spend a certain proportion of the budget devoted to public procurement in purchasing goods and services from EU startups. This should be combined with political initiatives to provide visibility and awareness about the already existing possibilities (e.g., innovation procurement) and to identify possible shortcomings.

*Outcome/KPI:* proportion of procurement budget spent on startups, amount of delivered goods and services.

### Action 3.2: Fostering open innovation

Pan-European open innovation between startups and corporates (and possibly universities) is fundamental to strengthen the startup ecosystem. Moreover, the need for support to startups by bigger players is stronger in specific sectors (e.g. biotech, pharma, deep-tech, etc.)

*Enabler:* The EIC, EIT, HEInnovate, HEU Partnerships and the European Innovation Ecosystems Programme of HEU.

*Outcome/KPI:* amount of matchmaking events supported by the European Ecosystems programme, number of pilots or proof-of-concept (POC) opportunities, investments and acquisitions.

### Action 3.3: Fostering spin-offs

It is of paramount importance that Entrepreneurship Education (EE) programmes for researchers be implemented in universities. Furthermore, cooperation between universities and startups in the field of different deep-techs (e.g., AI) has to be incentivised.

*Enabler:* the Transforming Higher Education Institutions programme and HEInnovate of DG EAC could facilitate this action.

*Outcome/KPI:* increase by  $\frac{1}{3}$  of the number of spin-offs per higher education institutions and research institutions in Europe.

### Action 3.4: Co-create flagship projects to connect startup ecosystem players

Flagship projects are needed to develop disruptive innovations to address Europe's challenges (e.g., climate, mobility) . In such projects, startups are key players to bring innovations to the market. They should be present from the conception phase and the project should be co-created with them.

*Enabler:* Important Project of Common European interest (IPCEI), giving directionality and funding for research, innovation and piloting to solve a focused problem.

See: [https://ec.europa.eu/energy/topics/infrastructure/projects-common-interest\\_en](https://ec.europa.eu/energy/topics/infrastructure/projects-common-interest_en) and <https://www.hydrogen4climateaction.eu/whats-an-ipcei>

*Outcome/KPI:* impact/representation of startups in flagship projects.

### Action 3.5: Cross-border investment

Europe is still too fragmented with respect to the VC sector, cross-border investment, the capital market union etc. Also, the exit opportunities in the EU are not always optimal. Risk capital invested in North America is approximately five times larger than the level of investment in Europe. VC markets and funds, as part of the single market, should be able to use all opportunities stemming from the free movement of capital that is monitored and enforced by the European Commission.

An increased harmonisation of the regulation that investors have to deal with when investing in different countries in Europe is needed, as well as a reduction in the various kinds of taxes and legal barriers hampering cross-border investments across the EU.

*Enabler:* The InvestEU programme allows innovative ways to provide funding for startups, also allowing Member States to contribute with their own compartment. European Innovation Fund and EIB.

*Outcome/KPI:* Increase in cross-border investment and EU exits.

#### **Theme 4: Policy advising to Member States**

There is a strong need for coherence in policy making on startups at EU level. Thus the European Commission should provide Member States with tailored support on the implementation of startup-friendly policies. Also, the Commission should lead by example and present a coordinated Startup policy across DG Grow, DG RTDI, DG CNECT, DG DIGIT, FISMA, COMP, etc., integrated into the Green Deal and the Digitisation strategy.

This implies the following actions:

##### Action 4.1: Special Working Group

A special Working Group should be set up to discuss the implementation of startup-friendly policies throughout the EU. Such a Working Group should include EU and national officials responsible for policies that affect startups and different stakeholder organisations. This group could advise in areas described below (Actions 4.2 and beyond).

*Enabler:* the European Commission should be responsible for setting up such a Working Group within the existing EIC Forum in Horizon Europe and could support in the implementation of the action, taking into account the future Startup Nation Standard.

*Outcome/KPI:* co-ordinated planning and policies by EU member states aimed at the EU startup ecosystems and/or 1-2 new/improved legislation per member state per year.

##### Action 4.2: Tax incentives for growth

Startups should be classed as a special investment category, and investors should be allowed to deduct their investments in startups from capital gains taxes. This would, for instance, create fiscal incentives for business angels, which are not very active in the EU. As an example, Belgium introduced in 2015 a 45% tax reduction for investment in new shares of a startup / micro-company, and a 30% tax reduction for investments in new shares of an SME or startup fund. Additionally, UK's EIS/SEIS can be considered as inspiration.

*Enabler:* while taxation is within the remit of each Member State, European Commission's DG FISMA should coordinate on this policy activity within the EIC Forum.

*Outcome/KPI:* number of Member States who implemented policies introducing these tax incentives and number of startups/investors that are actually using them.

#### Action: 4.3: Ending tax bias favouring debt over equity

In most member states, debt is treated as a cost in fiscal terms, meaning it can be written off against revenues, ultimately leading to lower taxes. Meanwhile, equity is treated as profit, meaning it is taxable as revenue. To improve this, the EU/Member States should implement tax incentives intended to neutralise the decision of debt versus equity financing. This scheme, called “notional interest deductions”, was implemented in several member states (Belgium, Luxembourg, Italy).

*Enabler:* while taxation is within the remit of each Member State, European Commission’s DG FISMA should coordinate on this policy activity.

*Outcome/KPI:* number of Member States who implemented policies remedying this tax bias.

#### Action 4.4: Employee stock options (ESOPs)

In Europe, individuals who receive stock options in a company often have to pay ordinary income tax on them as if they were current income, meaning the recipient has to pay an often heavy tax on an illiquid asset. In startups, ESOPs are used as a way to attract talent and compensate them for their lower salary, in comparison with large corporates. Current ESOP schemes reduce the attractiveness of stock options as a means to attract talent and reward risk-taking. Therefore, ESOPs offered by startups, scaleups and unicorns in Europe should be taxed as capital gains, not ordinary income.

*Enabler:* while taxation is within the remit of each Member State, European Commission’s DG FISMA should coordinate on this policy activity.

*Outcome/KPI:* number of Member States who implemented policies introducing this treatment of ESOP for startups/scaleups/unicorns and number of startups that are actually using them.

#### Action 4.5: Pan-European Startup Visa (“Startup Green Card”)

In order to turn Europe into the easiest place for highly skilled talent to start a company and get a job, a pan-European Startup Visa should be rolled out. This could be moulded on existing examples at national level, such as the French Tech Ticket. This is of greatest importance, given that more than 25% of employers in Europe declare having difficulty filling jobs for lack of talent. On this note, it is also paramount to address the problem of brain drain, and to bring back EU talents who emigrated to third countries to develop their business ideas. See e.g., Italia Startup Visa Report:

[https://www.mise.gov.it/images/stories/documenti/Rapporto\\_ISV\\_Survey\\_ENG.PDF](https://www.mise.gov.it/images/stories/documenti/Rapporto_ISV_Survey_ENG.PDF)

*Enabler:* the EU could launch targeted campaigns aimed at bringing their talent back, e.g. through research grants, logistical support and adequate financial support. The EU could also provide a harmonised framework covering the criteria (including procedure and fees), create a single point of contact for interested founders and take steps to ensure intra-European Union mobility for these innovators.

*Outcome/KPI:* (increase in the) number of permits in the EU in total per year

#### Action 4.6 Insolvency / Restart / Corporate Law

If the urban legend is true (and this will be scrutinised by gathering more data after implementing the actions in Theme 1) that 9 out of 10 startups do not make it, we need to tackle that realm as well. If we can manage to get this down to e.g., 8 out of 10, this would entail a significant boost to the EU startup ecosystem. This implies addressing current weaknesses in corporate law. Currently closing a company is much more difficult than opening one.

Startups need to have “puppy protection”, until thresholds in revenue / age / number of employees / or debt have been reached. The definition of stages can be ultimately used for further deregulation in very early stages.

Founders that failed because of the pandemic should be enabled to restart easily (e.g., providing access to low-cost, low-threshold public “restart funding”) provided they take some agreed upon actions (e.g., mandatory enrollment in an accelerator).

## **Annex 1: Startup ecosystem leaders that contributed to this document**

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