According to Eurostat’s\(^1\) most recent data, GDP in the EU28 rose only 0.1% in 2013 after a long period of GDP instability since 2008. Although the current forecast anticipates growth of up to 2% by 2015, employment remains a challenge with growth levels below 1% and heavily burdening younger generations.

These figures are in contrast with Europe’s entrepreneurial & innovation throb which reflects a community of young entrepreneurs looking for opportunities to strive. Many of their initiatives have been deterred by limited access to finance and it is now time to overcome many of the obstacles which are preventing these startups to take off and grow.

According to a 2011 report from Ernst&Young, 2/3 of new jobs come from only 10% of the companies. These moderate and high growth companies are usually capital intensive and the ones in which typically startup investors invest in.

There is a new wind blowing in Europe and entrepreneurship is on the rise. All over Europe, from Dublin to Nicosia and from Lisbon to Helsinki, a young entrepreneurial generation sees opportunities and launches new ideas and ventures. The investment community is well aware of this and has been supporting emerging startups in the form of capital and skills. Many more need to become funded though and that is why the European early stage investment community stands together with this manifesto.

\(^{2}\) Euroindicators 34/2014
This manifesto is subscribed by startup investors from all EU28 & accession countries and represents a statement in support of policies and actions to Increase a 7.5 billion Euros early stage investment market today to a 15 billion one by 2017.

«We are bullish about the dynamism of entrepreneurial Europe and we are confident that many new ventures will succeed and turn into global leaders. I commit to invest and provide startups with the oxygen they need to thrive. My funds will directly create new jobs and support the growth of innovation driven companies and will indirectly bring Europe’s economy to new levels of growth»

Despite the opportunities in areas ranging from ICT, mobile applications, health, energy or creative industries amongst many others, there are obstacles preventing further investment right now and steps that were not yet taken to increase the investment capacity of the early stage investment community.

«If we don’t take action today to leverage on the existing opportunities to get Europe on a path of sustainable growth, cut unemployment and get rid of the burden of debt, we risk to see many of our successful startups and serial entrepreneurs to leave and turn their back on Europe. Our millions of young unemployed will become our millions of old unemployed. This specter is unacceptable.»

This is why investors have decided to stand up to call for a joint effort. We have identified the following 5 areas in which we should produce change to unleash the power of the European early stage business community:

1. Inspiring a co-investment culture amongst different market stakeholders
2. Taxes as drivers for innovation and reallocation of funds
3. Increasing market liquidity to avoid equity gaps
4. Raising awareness and changing mindsets towards a favourable risk culture
5. Making investment easier and clearer for both businesses and investors

These actions and policies commit investors and engage policy makers at European, national and regional level to take responsibility on the changes that need to be implemented. They involve both the private and the public sector on a common strategy to increase funds available for startups and to create the Single Market for early stage investors.

The supporting investors of this manifesto, call for the attention of Heads of State from all EU28 & accession countries, for the commitment of the Members of the European Parliament, for the active involvement of the coming European Commission and for the economic responsibility of corporate investors which can, all together, supported by a motivated early stage investment community, draw up new perspectives for aspiring entrepreneurs and game changing startups.

May 2014
This joint manifesto represents the position of European early stage investors (ESI)\(^2\) from all 28 Member States and accession countries on policies and actions to be implemented toward a better investment environment in startups. It complements the Startup Manifesto\(^3\) that was drawn by 9 of Europe’s most successful tech entrepreneurs in 2013 and brings light into some of the issues that prevent investors to invest even more in these early stages.

The goal of this document is to pave the way for an improved investing environment that will allow European startups to achieve their full market potential while remaining an integral part of the European economy. Even more, the manifesto aims to offer guidelines, ideas and concrete policy suggestions that could ultimately lead non-European startups to relocate to Europe and add to the continent’s economy.

However, before even thinking about drawing business to Europe it is necessary to first capitalize on the existing potential and fast. Recovery and economic growth have been and are struggling, access to finance remains a huge problem not only for startups, but also for existing medium-sized businesses, and overall spending is still experiencing cuts, especially the R&D sector crucial for innovation and ‘new’ growth. If steps aren’t taken quickly, Europe risks falling back into a ‘rut’ wherein possible new sources of growth will again play second fiddle to mainstream approaches proven to be inadequate to overcome a crisis.

One could go so far as to say this may be a golden opportunity for a sector that has long been neglected and forced to operate on the side-lines. When talking about early stage investing, benefits to the broader society can never be stressed too much. Supporting it, does not simply mean making it easier for someone to make money - it is about real growth, jobs, new value in the economy that can lead to global success stories and about giving innovation in Europe fresh impetus.

Access to finance obstacles are now amplified by adverse business conditions and Europe is, again, falling behind other comparable markets in offering finance to those who require it the most, startups and SMEs. Allowing early stage investors to operate with more certainty and simplicity would breed in the much needed oxygen to the market. It would also ease the burden to public funds that are stretched to the limit, to name just one of the many benefits.

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\(^2\) The early stage investors [Start Up Investors] denomination stands for all players investing equity (typically under 3M€) in SMEs at their initial stages of development. This investment class can be broadly in the following players:

- **Business Angels** – Individuals investing their own wealth (€10k – €250k) alongside a specific expertise that will support the startup to grow bigger and faster;
- **Early Stage Venture Capital Funds** – Venture capital funds focused in the early stages of development of fast growing startups typically investing in the range of €500k-€3M;
- **Business Accelerators** – Organisations providing an acceleration programme alongside starting funds, typically under €50k;
- **Crowd investors** – Individuals investing equity through a web platform in the range of €10 to €10,000.

\(^3\) [http://www.startupinvestorsmanifesto.eu/]
A changing market

Things are changing for the better when it comes to the recognition of early stage investing as an important factor in the real economy, but there is still a lot to be done in seizing the most of a fully developed early stage investing market has to offer. Early stage investment has its own specificities which should be acknowledged before any premature judgment:

a) Its risk factor is the highest of the venture industry making investments in very early stages well far from predictable results;

b) Lacks liquidity as it is based in long terms positions from investment to exit (4-7 years) with no clear buyers in the end;

c) Requires throughout selection, screening and negotiation;

d) Demands a post-investment strategy to defend its own interests (eg. against new investors) and continuously delivering added value to the entrepreneur.

As one can see this is considerably different from the passive stock market approach and justifies per si a set of policies and measures that should at all cost minimise the non quantified investment burden.

In part thanks to the hard economic situation, sluggish growth and high unemployment, early stage investing has attracted more attention than ever before from the decision makers in Europe, as it is one of a few remaining untapped sources of new jobs and palpable growth.

European investment into early stages in 2013 reached 7,5 billion Euros, led by business angels and venture capital funds with crowdfunding still playing a marginal role. Investments at these stages are estimated to having created nearly 150.000 jobs in over 30.000 companies.

As we aim for a much bigger market supported by the actions and policies featured in this manifesto, we estimate it is possible to achieve the goal of 15 billion Euros of investment translated by the following figures:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2017</th>
<th>4-years growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business angels</td>
<td>5,5</td>
<td>11,7</td>
<td>113%</td>
</tr>
<tr>
<td>Early stage VC funds</td>
<td>2</td>
<td>2,9</td>
<td>45%</td>
</tr>
<tr>
<td>Equity Funding</td>
<td>0,08*</td>
<td>0,5</td>
<td>525%</td>
</tr>
</tbody>
</table>

Figures in billion Euros  | Source of 2013 data: EBAN, EVCA  | * Estimation based in multiple sources
The impact of these investments, taking into consideration the average number of jobs created by funded startups and their growth between 2014 and 2017, is estimated to reach 1.5 million jobs. Evidence from the ground corroborate the impact of early stage investments on jobs and growth. The Tech City\textsuperscript{4} initiative in London recorded a 76% growth in the incorporation of tech/ digital businesses during the period between 2009 and 2012 while a staggering 27% of all job growth in London now comes from this sector. A recent study from EBAN\textsuperscript{5} also confirms that angel invested businesses employ on average 5 people in the year of investment and job creation keeps growing in subsequent years.

Despite the inherent connection between the funding of technology driven companies and the creation of economic returns, many startups are often forced to seek funding in the US where the early stage investing market is about three times more developed compared to Europe\textsuperscript{6}. Simply put, Europe is seriously lagging behind its global peers and should do all it can do close the gap. Increasing the funding potential of Europe would not only help keep European investors and entrepreneurs in Europe, but could in turn lead to achieving another important goal – attracting foreign entrepreneurs to Europe. The TTIP - Transatlantic Trade and Investment Partnership currently in negotiation between the EU and the US will also bring new challenges at this level and we will need to guarantee that startups marketing their offering on both sides of the Atlantic will be able to obtain the funds they need in a competitive early stage investment market.

Barriers have been removed in most areas of business through the years, but early stage investing is still faced with a chronic lack of scale, 28 different markets, considerable discrepancies in rules, procedures and incentives, various financing problems, an absence of information sharing and not enough cross border ventures. Removing only some of these hurdles would have an immediate impact, which is why it is paramount to act decisively and rapidly to create the European Early Stage Single Market. Creating an internal, single market with plain opportunities to startups and entrepreneurs from anywhere in Europe is therefore a prerequisite for all the aforementioned measures.

This manifesto, above all concrete measures it proposes, serves to show that for the first time, investors across Europe from all early stage sectors such as crowdfunders, business angels, seed funds or accelerators are coming together, with a very simple yet elusive aspiration: to actively contribute to the affirmation of the European Early Stage Single Market as a solution for the much needed economic recovery and job pick up.

Believing startup founders should be able to find the funds they need in Europe in any of their development stages, we urge all stakeholders of the European startup scene to unite towards a simple, efficient and impactful access to finance pathway which may lead Europe to new highs and success stories.

\textbf{What better time to start than now?}

\textsuperscript{4} The Tech City 3rd Anniversary Report (2013) \quad \textsuperscript{5} EBAN 2014 \quad \textsuperscript{6} ACA 2013
### The Manifesto in a Nutshell

#### Key Actions

<table>
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<th>Key Actions</th>
<th>Actors</th>
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<td>Inspiring a co-investment culture amongst different market stakeholders</td>
<td>National and European policy makers, Corporate investors, International venture capital funds</td>
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<tr>
<td>Taxes as drivers for innovation and reallocation of funds</td>
<td>National authorities</td>
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<tr>
<td>Increasing market liquidity to avoid equity gaps</td>
<td>National and European policy makers, Corporate investors, Capital markets regulators</td>
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<tr>
<td>Raising awareness and changing mindsets towards a favorable risk culture</td>
<td>National and European policy makers, Academia, Startup ecosystem stakeholders</td>
</tr>
<tr>
<td>Making investment easier and clearer for both business and investors</td>
<td>National and European policy makers</td>
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#### Actors

- National and European policy makers
- Corporate investors
- International venture capital funds
- National authorities
- Capital markets regulators
- Academia
- Startup ecosystem stakeholders
- National and European policy makers
- Better data collection
POLICY RECOMMENDATIONS AND ACTIONS

1. Inspiring a co-investment culture

Having access to finance, been considered a challenge by all for a long time, the private and public sectors have been addressing this issue in different ways. One of the most obvious examples is public funding of businesses which has little interest for investors or lacks a market validation approach. The private players themselves have also on many occasions been operating independently (e.g. early stage vs late stage) with the sound example of crowdfunding taking long to be recognised by its peers as a valuable source of funds to startups.

The actions below can considerably increase the collaboration between different market players building consistency and removing unjustified barriers:

1.1 Co-investment facilities

We propose a framework in which public stakeholders (governmental organizations, development agencies, public venture capital firms…) can co-invest with different investors (crowdfunders, business angels, early and late venture capitalists) to increase the chances for the startup to raise funds across its subsequent developments stages. The participation of public funds for co-investment may be determinant in countries with an overall lack of private funds being invested in startups and particularly in those which are willing to trigger investments from a certain type of investors (e.g. business angels or crowd investors).

Involving early-stage with later-stage investors in the same co-investment fund will also contribute to improved market liquidity for early stage investors and commit investors such as VCs or family offices to diversify their portfolio into startups while guaranteeing these are being closely monitored by the investors which are more skilled in these stages.

Several countries demonstrate best practices in co-investment which should be adopted. Different co-investment models exist and have been extensively implemented and tested in different countries, albeit this is not yet accessible to investors in every country.

In Portugal, an emerging angel community has seen investments by these actors increase from almost exclusively due to the creation of a public co-investment facility partially funded by EU cohesion funds. A similar facility is also being used in The Netherlands since 2006 and can be replicated to other countries.

1.2 Cross-border co-investment

Despite an emerging early stage investment community, significant discrepancies still exist with funds available in leading economies but lacking in many other regions (e.g. Southern Europe only accounted for 10% of funds invested into VC backed companies). Entrepreneurs in these regions with less funds can benefit of initiatives which will scale up the local amount of capital available and link their companies with much more capital power and better connected investors in more developed countries.

A Europe-wide co-investment framework that allows and facilitates investors to invest alongside

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7 Visible market only through established angel networks  |  8 Source: FNABA 2014  |  9 EVCA 2013
other investors and into early stage companies regardless of their origin within the EU is a key element to attain the European Early Stage Investment Single market. Many European investors already know each other and are connected through international organisations. Despite this fact and knowing no legal constraints stop them from making international investments, many did not yet cross their borders to invest alongside other investors.

A cross-border co-investment facility leveraging investments from investors in different geographies will incentivise investors to search for international opportunities and to commit funds alongside other investors from other countries which is the same as saying investors will be in a better position to search for the best deals in Europe. This initiative demonstrates the potential of the single market per se and should be seen as a measure to invite investors to leave their comfort zone and be challenged to look for deals abroad.

Measures aiming at fostering cross-border co-investment should pay particular attention to drive additional funds to emerging markets instead of concentrating funds into more competing entrepreneurial communities to which funds are naturally attracted to. Cross-border co-investment facilities should work on the principle that capital needs to be available where companies are located so they don’t need to ‘follow the money’ around and lead to potential relocation of startups.

The existing European Angel Fund, an initiative led by European Investment Fund (EIF) which is co-investing with business angels in Germany, Spain and Austria is a recent step towards this goal. The way it is structured should, however, be reviewed to become accessible to investors from all EU member states and accession countries. Action in this area is not limited to public agents and can be extended to corporate investors and international Venture Capital funds. These can set up sector focused funds and co-invest alongside individual investors across the EU to be constantly on top of the latest trends and opportunities. Wayra’s business accelerator is a well-known European example of co-investing in startups across Europe and promoting these to other investors.

1.3 Convert business development grants into financial instruments

Currently, a large part of EU and national funding takes the form of grants. Whilst this is helpful for research focused ventures and companies that often do not yet have relevant revenue streams, it also has disadvantages such as insufficient incentives to commercialise.

Converting public grants targeted to business development into financial instruments (e.g. equity, debt, guarantee, mezzanine) will shift funds awarded to companies into revolving capital which may be used by multiple SMEs in different periods. This re-orientation will also lead to a focus shift from product development to commercialisation and business development. Such public funds should be linked to co-investment facilities as much as possible, in order to ensure public resources are allocated in alignment with the market.

Despite recent positive developments, Europe needs stronger action. Public grants from financial instruments at European level (e.g. Horizon 2020, Cosme...) or at national level, should be mainly transformed from non-refundable capital into revolving capital. But what does it actually change for SMEs? For funded SMEs it means they would still receive the funds they need and may be subject to refund only if they succeed. It will nevertheless mostly impact the SMEs that are currently not receiving grants as more funds will be made available in the following periods.
Funds made available through this mechanism can be invested multiple times, transforming €1 of investment into up to €5,55 along a 20-years period. If we assume a 30% loss rate\textsuperscript{10} for each round of investment and consider an average of 4 years positions, for every €1 initially invested we will see further €1.77 re-invested. If in addition to this, we consider these investments are made alongside private investors on a 50/50 basis, for every €1 invested we will see €4.55 being re-invested into startups in addition to the priceless free business mentoring provided by early stage investors.

EU Horizon 2020 is for the first time deploying 3.69\% of its budget under financial instruments. If we apply the same multiplier assumption to the corresponding 3 billion euros H2020 budget, these funds could multiply up to 5.3 billion euros or 16.7 billion euros if investors could become involved in the process. Leveraging European programmes further or applying the same rationale to national grant mechanisms can increase the sustainability of funding of research and multiply funds available to commercialisation along time.

2. Taxes as drivers for innovation

Tax discrimination has for long been used in public policies to incentivise or discourage certain actions from tax payers. The application of favorable tax policies related with high-growth and high-job generating sectors is no different and has a direct impact in public budgets. From an investor point of view, it’s an invitation to allocate part of its funds to the real economy thus creating jobs and wealth. From an entrepreneur’s perspective, it offers the advantage of putting all money to use instead of paying taxes prematurely. For the government deciding on growth policies, it’s a matter of making a simple process (direct taxation) a bit more complex by making the funds go through startups first or deferring an immediate gain with a premium for patience. In summary, we can make governments touch their fair share of taxes while supporting potentially future high-tax payers to grow and, cherry on the top of the cake – not committing any funds to the implementation of such policies.

2.1 Tax incentives for investors

Startup related tax incentives should be perceived more broadly as mechanisms to re-allocate passive capital into job, wealth and tax generator capital while a set of tax reliefs could be made available to investors ready to put their money into high risk companies. Startup investors are not necessarily rich as crowdfunding so well demonstrates, and therefore there is room to attract further wealth amongst a diversified community of investors. Tax discriminatory policies can mobilise the society towards investment into the real economy thus preventing companies from moving abroad in search of investors and inevitably paying their taxes in other economies.

Tax reliefs should be awarded to investors based exclusively on their impact in the funding of SMEs and not taking in consideration the profile of the investor, funds at his/her disposal or his/her level of “sophistication”.

These policies should also apply to re-investments providing an incentive to those who have had capital gains in other businesses or are taxed based on their wealth to offset their tax dues in re-investments into early stage companies. Attention should be paid however to keep incentives at reasonable levels not to distort the market or create new barriers for cross-border investment.

\textsuperscript{10}This assumption is based in the fact that revolving finance will be applied also to businesses not-validated by private investors and being therefore closer to a grant than to a typical investment.
In UK, the early stage investment tax reliefs EIS (Enterprise Investment Scheme) launched in 1994 and SEIS (Seed Enterprise Investment Scheme) implemented from 2012 have been playing a critical role in the UK early stage market. The amount of investment raised by companies under EIS in 2011-2012 was over €1.2 billion\(^1\) and SEIS impact in the first 18 months of operation resulted in €100 million invested in 1100 companies\(^2\).

Tax reliefs' are compensated by taxes paid by startups (e.g. VAT, income tax, corporate tax) and can be designed in not to have an impact on national budgets as long as the tax relief can come into effect only after a certain amount of taxes have been paid.

2.2 Easy on taxing startups

For most businesses, any tax is too much tax, but the fact is European entrepreneurs are saddled with more than they can handle, especially given the current economic landscape. A considerable part of the money invested or lent goes to pay employees, including the entrepreneur, where the team pays income tax, social security etc. Such taxes quickly become a heavy burden for a startup and put European entrepreneurs at a big disadvantage in setting up teams and staff when compared with large corporations which are able to optimize their taxes. Reaping the benefits too early – or eating the cake too early - can seriously put at risk the collection of higher taxes in the near future.

Further attention is also welcomed in the context of the compensation of entrepreneurs and key employees of startups through share options. This is a reward instrument based on the future performance of the team but in most cases is taxed on potential gains and not on real gains and may even be considered in some jurisdictions as ordinary income and not as capital gains.

Positive discrimination of SMEs, and in particular of high-growth businesses, will increase the capital efficiency of investments performed at these early stages, especially in the first years of its creation. This will reduce the risk and burden of starting a new company in Europe. Latvia took the leadership on cutting red tape and taxes to entrepreneurs. A special tax structure aimed at small entrepreneurs allows micro businesses to pay a flat 9% tax on gross revenues while at the same time keeping the process simple making it easy for anyone to fill in the required 1-page report to the administration.

3. Increasing market liquidity

Funding a startup across different growth stages is still a challenge in many countries throughout Europe. Despite an overall growing community of early stage investors, some countries still need to make progress in this segment. In addition to that, the European venture capital industry has been facing a downturn since the financial crisis in 2008 and has not yet recovered\(^3\). While an IPO is barely a myth for today’s startups, investors’ exits are being mostly granted by trade sales to bigger corporations. Such a limitation on capital for subsequent investment stages prevents growing startups to become bigger and has been forcing business angels – and soon crowdfunders – to hold their positions for as long as 7 or 10 years before finding a good exit opportunity and is therefore preventing them from investing in new companies to repeat the cycle. Some actions can be implemented though, and the possibilities include:

\(^{11}\) Source: HM Revenue & Customs
\(^{12}\) Source: Financial Times (Budget 2014: Seed capital tax relief scheme made permanent; 19/03/2014)
\(^{13}\) According to EVCA’s 2013 Activity Data Report, venture capital & private equity investments decreased 38% from the period 2005-2008 to 2009-2012.
3.1 Equity Fund of Funds facility

There is a real equity-gap across Europe for thousands of the most promising and innovative SMEs, either in the range of €1 - 15 million (VCs) or in the range of €50k-1 million (notably in regions with emerging angel communities). A fund-of-funds has for long been recommended, combining European resources with national co-financing and specially addressing regions, sectors and stages with an evident lack of equity funds. This “smart EU initiative” could mobilise European and national institutions with private investment from institutional and informal investors while bringing together players of different funding stages under a common mission. Member states have special responsibility in the identification of these gaps and in providing alternative solutions to either increase a given type of investors missing in a local market or to decrease barriers for cross-border investments.

The creation of a fund–of-funds facility by the European Commission (through EIB group), that can be matched by national funds, can promote the birth of many regional early stage funds, in regions that today are lacking early stage investment. Many governments, without the incentive of European funds, do not feel compelled enough to create these regional funds which as a result leave startups from these same regions with no further options to take off.

3.2 Involvement of corporate-investors

A common practice for big corporations to stay on top of innovation is to buy smaller innovative companies which have demonstrated their value to the market. A smarter way to implement an acquisition strategy is to proactively nurture and support seed and early stage companies to reach that same demonstration level. With the purpose of being closer to innovation, to be ahead of the competition or simply to apply a responsibility towards further innovations in a given sector and progress to the society as a whole, corporate investors should become active funders of tomorrow’s success stories.

Although some market leaders have already integrated corporate venturing in their innovation DNA, this is not general practice across Europe and much more can be done for these players to become more relevant in startup funding. In addition to the integration of corporate ventures in co-investment programmes with other types of investors (Point 1.1) or the application of tax credits for those investing in early stage (Point 2.1), we can go further and engage corporates in the growth of European startups.

Google Entrepreneurs’ London based accelerator has fully equipped a building for use of startups and has engaged its workforce in the coaching of these entrepreneurs.

Public stakeholders also have a word to say and can, for instance, award innovation related procurement contracts to large corporations only if they have in practice a policy of corporate investing in early stage companies.

Another example which can be fostered either at European or national level arrives from the US where the National Council of Entrepreneurial Tech Transfer (NCET2) organises an annual national showcase of 1000 startups looking for funding with the active participation of the major north-American corporate players.
3.3 More stock exchange markets for startups

Stock exchange markets have been neglected as a source for investments. To become more attractive they need to offer the same or similar opportunities and accessibility available in the US and critically improve their liquidity. While IPOs are still considered by many entrepreneurs as the Holy Grail for successful startups, few think of them as a critical achievement for early stage investors. Early stage investors place exits at the top of their concerns as this is essential for a sustainable market and to complete the life cycle of an investment. Although other forms of exit may arise along the growth stage of the startup, further access to trading markets is needed with inexpensive, flexible but reliable regulations adapted to the capacities of each company.

Possible measures for achieving this include the harmonisation of legislation across Europe, creating incentives for SMEs (e.g. lower capital gains tax for listed companies), adjusting listing criteria and regulatory procedures for initial public offerings (IPOs) of innovative companies and easier access of SMEs to “alternative” and online public trading platforms targeted to nano, micro and small caps. The final goal is to prevent successful European companies going public in the US instead of remaining in Europe, thus providing benefits for the wider economy. Some examples that could be examined to this end are the London Stock Exchange’s High Growth Segment and OMX First North. Nasdaq Private Market is also a good example, of what can be done in Europe.

3.4 Fine-tuning the Capital Adequacy requirements for institutional investors investing in venture capital funds

The new regulatory environment (e.g. Basel III) envisioned to increase protection of investors is inadvertently putting a break on investments in younger startups. Institutional investors (pension funds, sovereign funds, banks...) are discouraged from investing in venture capital funds and in particular in those targeting the early stage market – the most unpredictable of the venture capital industry.

A low threshold (below 5% of total portfolio) should be set, allowing institutional investors to invest in venture capital funds, without the risk of highly risk weighting those investments. This low threshold will not create any systemic risk for the European financial markets. For instance, 1% of a 10 billion euros fund, represents 100 million euros, which can have a major impact in any early stage ecosystem in Europe.

4. Raising awareness and changing mindsets

Even though the perception and economic effect of early stage investing have come a long way in a relatively short period of time, much more needs to be done to raise awareness of the many benefits to the economy stemming from a business climate friendly to early stage investors. In other words, we need to change an institutional centered “old” economy to a vibrant and new entrepreneurship driven society. This is not easy if we think of the still limited success stories of European ventures (e.g. Skype, Rovio, Supercell...). To counter this, the manifesto proposes:
4.1 Preparing entrepreneurs and investors for early stage funding

Early stage investors are in support of an entrepreneurial culture starting from young ages and within the educational curricula. Mindsets take a long time to change and what better period and environment than school to reveal the capacities of each individual and empower him/her to take control of its own future. Changing a culture of education which prepares skilled employees to a culture that motivates an entrepreneurial mindset is a major challenge that our schools will need to face in the future.

In the short and medium term we need to focus on the preparation of already existing (wannabe) entrepreneurs whether they are in college or university or already active in the work force. Lack of investment readiness of entrepreneurs is one of the reasons for unsuccessful funding from the first selection stages. Better preparation through training and coaching programmes can have a significant impact on the quality level of deals presented to investors. While the education system has a role to play offering early stage investment related subjects (e.g. business plan, business labs, investment readiness...) we should also consider municipality-led programmes or e-learning solutions to entrepreneurs having left the educational system already. Achieving a level of excellence in the preparation of business proposals is often facilitated by acceleration programmes and by coaches who, often investors themselves, provide a demand focused perspective and can successfully shift “good ideas” to “can’t miss” proposals.

Education and preparation towards entrepreneurship can bring us to a whole new ecosystem in which entrepreneurship and investing go hand in hand from the very beginning. European programmes as well as national and regional initiatives, public or private in nature, can have a role to play both in the education of younger generations (e.g. JA-YE Europe). Many actions are already operating in the preparation of students and entrepreneurs to become investment ready and Horizon 2020 demonstrates how this topic has gained relevance, but still many regions across Europe are lacking the required support to entrepreneurs.

There is also work to be done on the existing investment culture. We need to ensure high financial literacy levels of citizens – again from very young ages - in order to build knowledge and awareness of the economic impact even the smallest investments can have. This will sensitise people to allocate their liquid assets towards investments and empower them to become active agents for economic growth. Financial literacy is key to understanding the process of economic value creation and to choosing among the financial services products available. The financial landscape has grown in complexity and importance it has in everyday lives. That is why it is crucial to make financial literacy a part of elementary education, not only as a means of protecting the financial interest of the new generation, but also to give it a bigger choice.

The same concept applies to potential and already existing qualified investors. The creation of training programmes targeted to educate individuals in early stage investment would provide the necessary foundation for the expansion of the market and attract a larger number of individuals interested in taking an active role in the funding of the real economy. Such programmes, which can be deployed across Europe through e-learning tools or at regional level with the support of existing investment networks (e.g. business angel networks), will particularly strengthen the investment capacity of angel investors and crowdfunding investors, allowing them to make quicker and better investment decisions, with the benefit for the ecosystem of allocating more money to start ups than before.
Knowing that crowdfunding platforms are at an early stage and that most of the European business angels networks don’t have a commercial focus and thus lack the funds, support for the delivery of investment capacity programmes needs to be provided in the context of existing European programmes (e.g. Life Long Learning, Horizon 2020), at regional and national level by development agencies and the public sector or by corporate sponsors interested in attracting more investors into the sectors in which they operate.

4.2 Awakening a new generation of investors

If we want more money invested into European SMEs we need to invite more private individuals to shift their wealth from traditional financial solutions to the real economy. Wealthy individuals are everywhere, in different sectors and with different interests. As long as they are provided with adequate education and investment tools, they can question the impact of their financial options. Latest trends such as angel syndication and crowdfunding show the new entrants how they can participate with limited involvement, but nevertheless investing the funds many SMEs need. A Pan-European campaign aimed at shifting the asset allocation of high net worth individuals into the early stage asset class, either through direct investments or through syndicates or online platforms, can seriously impact the amount of funds available in the market. The simple truth is, there are funds and individuals willing to invest in early stages of business development, however, they need to be attracted and galvanized considering they already have established investment channels. Even so, they are always on the lookout for new possibilities.

Public authorities should invest in campaigns that can showcase the benefits of becoming a startup investor. The authorities should also focus on policies aimed at simplifying the identification and operation of angel investors and crowdfunding investors. Today many member states lack clear guidelines on how to identify a business angel and how to regulate the crowdfunding market. Before taking any decision, they should apply the principle that both types of investors are here for a positive impact: fund new businesses and contribute to the economy. Therefore, regulation should never become a bottle neck for investment.

4.3 Reward excellence - recognise investees and investors

The lack of a natural entrepreneurship culture in Europe is today a commonplace. This mindset has been contradicted by a rising recognition of entrepreneurs across different domains and as leaders in our society. A similar process needs to be done for the investment community which still operates in a somewhat grey area and which may be considered as the antechamber for many of the successful businesses and entrepreneurs which are latter recognised.

All market stakeholders should work towards an increased visibility of both investors, investees and the impact they have on the society. Entrepreneurship and investing are still not seen as a ‘career choice’ and can be likened more to a ‘calling’ or an impromptu decision influenced by circumstances. Furthermore, it is too often reduced to ‘a way of getting rich’, without any consideration for the broader societal and economic effects.

Rewarding excellence and role models can be as simple as putting these in the spotlight for their achievements. In addition to many market driven recognition initiatives (e.g. trade associations), much more can be done especially at the political level, both national and international (e.g. European Enterprise Awards, coordinated by European Commission).
5. Making it easier and clearer

In many ways, the terminology describing early stage investing is either obsolete or non-existent, which reflects outdated rules and procedures that hamper the expansion of investing in this sector. Simply put, early stage investing, being a relatively new concept in the world of business, in its present form is almost chaotic and arbitrary, lacking clear definitions and rules. This needs to be addressed in the following way:

5.1 Institute an E-Corp: a new type of cross-European corporation

Barriers to setting up a company are a problem in most of Europe, as is the need to make this process as easier and shorter as possible. In many member states the procedure is obsolete and out of date, such as the minimum amount of money required to register a company or other legal prerequisites. We strongly feel that creating a new type of corporation, the E-Corp, with unified requirements across the EU and that can be completed by anyone in under 24 hours, is the solution. It would not only simplify the creation of new businesses, but make cross-border investments much easier due to the standardisation of processes.

Many companies operate today across Europe without us even knowing their country of origin. This is the case for many internet based businesses which operate in the very same way in every country, offering the same range of services to all. Why should these businesses respect different constitution procedures whether they are created in the UK or in Slovenia? We should come closer to the possibility of setting up a company via web in any Member State in the same way some countries already offer the possibility to set up companies from a single counter (e.g. with the Portuguese initiative “Empresa na hora”, a startup can be created in 1 hour).

Bearing in mind the EU’s general and constant push toward a simpler, easier and more efficient administration for opening a business, this weaves itself seamlessly into that goal. An E-Corp is just another option for achieving this and should not be difficult to implement alongside existing ideas for streamlining basic business procedures. The age of the internet should be reflected by public administration.

This initiative finds a parallel in the 1-1-1 company proposal to be used by entrepreneurs (1 person, 1 euro, 1 day). Such simplification of rules and restrictions will certainly not apply to early stage investments, but shows the way towards a concept of simplification and common acceptance.

5.2 Commonly accepted definition of business angel

Currently the SME qualification criteria refers to “business angels” but there isn’t a commonly accepted definition by EU states of what a business angel is. This will, in some situations, prevent startups from being qualified as SMEs and thus being excluded from national and European incentives exclusive to SMEs. Adopting a common definition will also facilitate the production of national legislation towards the recognition of these investors. Making this happen wouldn’t require much effort, it could even be considered a technicality, but would make life so much easier for many startups. For instance: a wealthy investor that owns a large enterprise, wants to invest in a startup, owning for instance 40% of its shares. This participation will qualify automatically the
startup as a large enterprise (European recommendation on the definition of SME 361/2003), not allowing it to apply for European funds dedicated to R&D of SMEs.

A common definition of Business Angels should be imposed by default by the European Commission to all EU countries. With such action, even countries with a less developed early stage investment sector would find within the EU the needed criteria to identify and validate these individuals.

5.3 Increase market transparency

Market transparency is a key element for better access to early stage finance. It clarifies the impact of public policies, contributes to a professionalised sector and increases the demonstration effect. It is estimated that 90% of the angel investment market is under the radar and cannot be tracked through existing structures (e.g. business angel networks). In the crowdfunding area, no one is still gathering data from European equity crowdfunding platforms and evaluating their impact. Not all early stage funds are directly or indirectly reporting their data to EVCA.

One measure to increase transparency is the ongoing collection of investment data through existing mechanisms such as national statistics reporting or requests for tax exemption. Only through regular and consistent data collection we can evaluate and create the policies required to make this sector grow in relevance and impact.

When a start up is created the founders can be asked for the existence of early stage investors in the capital. Such request can also be submitted yearly through the corporate tax declaration or by a diversity of other possible means.

Monitoring Mechanism

A committee formed of representatives of the three main investment groups hereby reflected (early stage venture capital funds, business angels and crowdfunding) will monitor and report progress every 6 months of each of the points above referred. A note will be published on a regular basis following the publication of this manifesto and until 2017.

SIGN THE MANIFESTO AT

www.startupinvestorsmanifesto.eu