



The Creation of an E-Zone for Europe's Innovators, Entrepreneurs and Investors

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Context - Contribution by the Private Sector to the proposed 300 Billion Euro Investment Programme of the European Commission: President Juncker has made his first priority a 300 billion Euro public-private investment programme to revive the European economy, to create jobs for the young generation and to stimulate growth over the next three years.

“The money should be mobilised from existing budget resources, the European Investment Bank and the private sector, without changing the bloc's strict rules on budget deficits and debt reduction”, he told the European Parliament during a debate on his confirmation to head the EU's executive.

The private investment sector in Europe believes strongly that it is not only the “supply of money” which is important, but the “demand for money”, i.e., excellent entrepreneurial ideas that have potential to bring about impact in the economy and society, ideas that will make the difference.

Rather than subsidies and grants, which are certainly important, it is the framework and the conditions for success that will ultimately lead to a thriving, dynamic 21st century economy.

This framework for success, be it for entrepreneurs, for investors or for innovators does not exist today in Europe. More and more, entrepreneurs, investors, and innovators are being entangled and beaten down by bureaucracy, red tape, investor and entrepreneur unfriendly laws. The lack of a true Single Market for these players is not only suffocating and discouraging, it is driving entrepreneurs, investors, and innovators out of Europe seeking more attractive shores in the United States, China, or Singapore.

All of the money in the world will not help if Europe does not change this situation and does not do so immediately. The private sector and private investors will not invest if the conditions for success are not at hand and if they cannot be certain that the companies they invest in have the best chances for success. In addition, Europe will be unable to attract capital from Institutional Investors and/or private equity fund of funds that would fuel the growth if the framework conditions were not met.

Private Equity, Venture Capital, Angel Investing, Crowd Funding, Banks, Stock Exchanges and Alternative Markets as well as Family Offices must be able to invest in companies that can access a single market not only in terms of consumers but also in terms of employment, insurance, pension funds and tax-incentives for investment across the single market. Such schemes as the Enterprise Investment Scheme in the UK are great, but are not Europe wide and actually lead to investors only investing in the UK and not across Europe. The French Wealth Tax incentives do allow wealthy French Citizens to invest in innovative companies Europe-wide but are limited to only a privileged few. Exits from investments in venture capital and start-ups are taxed up to 43 % in some countries around Europe.

The role of Business Angels and private citizens acting as individuals or through networks, clubs, syndicates, crowd-funding platforms and other mechanisms in funding early-stage innovation is also not incentivized. National regulations in a supposedly “single market” often penalize private “cross-border” investors in innovative companies in other countries by not affording them the same incentives on investment or exit as their own national citizens. Investment by Business Angels and Private Citizens regardless by which mechanism, must be seen as “nation-building” and Europe must become a nation or at least a market of investors in growth and innovation.

It is for this reason that the parties mentioned below have been consulted and have come together to propose the creation and implementation of an E-Zone for Entrepreneurs, Investors, and Innovators.

Creation and Implementation of an E- Zone for Entrepreneurs, Investors and Innovators

A crisis of growth:

The European Union continues to suffer from the effects of a long economic and financial crisis and has been unable to return to sustainable long-term growth. After the initial banking crisis and later the sovereign debt and broader macro- economic crisis, we are now facing a crisis of growth.

The European Commission released recently its economic growth forecast for the EU and it expects weak growth for the rest of 2014 and only slow growth over the course of 2015. The Compact for Growth and Jobs adopted in 2012 has not delivered and structural economic problems remain in many European countries.

The process of completion of the single market (Act II) is too recent to produce effects and there remains a lot to be done to overcome the existing fragmentation of the EU. Progress towards a more integrated economic Union is necessary to overcome the fragmentation of legal and fiscal regimes in the EU.

The Union is also facing a widening investment gap in spite of large liquidity in financial markets. The fall in investments since 2007 averages 17% in the EU, but in some countries has been up to 42%. The current rate of investments in the EU is 19% of GDP against 25% in the USA. Economic uncertainty and lack of confidence in the capacity or willingness of political authorities in some Member States are exacerbated by an unstable fiscal, regulatory and financial framework leaving entrepreneurs and investors cautious about investing. Some experts also question

the existence of a sufficient number of good projects with attractive returns. A vicious circle is emerging with a dramatic increase in unemployment and particularly in the younger generation.

The crisis of growth will continue if European and national authorities are not able to restore the basis of a long-term growth and trust in the future.

An ambitious policy stimulating investments and the creation of an E-Zone:

On the basis of the analysis above, the contributing parties to the present document:

- Approve the orientations of the Commission towards a new boost for jobs, growth and investment and the principle of an EU investment plan proposed by President Juncker,
- Underline that a plan of investment is not sufficient in itself and that its success will depend on the intensity of the demand for investments, on the quality of projects supported and on the implementation of a plan of reforms both at European and national levels to remove barriers to entrepreneurship, innovation and investments in the EU,
- Consider that economic competitiveness is the main factor to preserve and further improve the European model, that investments in broadband and energy networks, transport infrastructures, education and research are important, but that SMEs, entrepreneurship and innovation are also key priorities for the European Union,
- Acknowledge the crucial role of the EIB-EIF group as well as of public national development banks, but believe that public investments must have a catalytic and leverage impact for private investors, that the investment plan should avoid any crowding out effect on private investments and on the

contrary, crowd in private investments in support of networks and infrastructures, SMEs and innovation,

- Recommend that the single market Act II be followed by a single market Act III to complete the internal market, in order to create an E-zone for investors, entrepreneurs and innovators with, as far as possible, one set of rules, one set of incentives and the removal of cross border barriers for investors, entrepreneurs and skilled people.

A new business financial environment:

The creation and implementation of a pan-European capital market will contribute to a better allocation of capital and, as a consequence, to the development of SMEs and jobs creation.

SME's are the backbone of the European economy and the main source for employment and value creation. The crisis has had prolonged effects on the SME sector and potential entrepreneurs. This has underscored the crucial role of small businesses and start-ups in the creation and preservation of employment, as well as in generation and diffusion of innovation. It has also changed their financial environment. Banks faced with strict prudential rules are reducing their lending to SMEs and, therefore, companies' reliance on banks will have to be reduced.

There is a broad range of financial instruments and of financial sources. Corporate financing could be encouraged in Europe and platforms for Crowd-funding are developing to offer alternatives to traditional sources of lending and equity. Entrepreneurs need publicly- supported training and awareness-raising to help them define financial strategies and to be investment ready.

Equity financing is crucial for enterprises such as start-up and high growth companies with a risky profile and weak collateral. Seed and early stage finance, mainly provided by business angels, play a key role in the most critical stages of the life of the companies while venture and growth capital and public listing contribute to their expansion. In addition, debt financing must not be neglected or forgotten.

EU should target the creation of a business eco-system that is conducive to entrepreneurship, investment, innovation and job creation in which innovative efforts are rewarded and growth potential is unleashed.

Action on both the supply and the demand sides are necessary as well as on the regulatory framework, in order to boost innovation and entrepreneurship.

Creating and implementing an E-Zone for Investors, Innovators and Entrepreneurs:

The following recommendations are made by the signatories of the present document to improve the financial environment of firms and to boost innovation and entrepreneurship.

Investors:

- Create and implement a pan-European capital market in the EU, to enable Europe to build new world class businesses,
- Assess the implementation of the single Market Act adopted by the Commission in April 2011 and the impact of prudential regulations such as CDR IV/CRR, Solvency II and IORP on the venture capital industry,
- Create a connected value chain for all players in the European finance ecosystem to support innovators from start-up through scale-up to high growth,
- Encourage, while respecting the diversity of targeted specialised fund structures, the creation of a common fund structure in the EU to overcome regulatory and fiscal barriers,
- Ensure that adequate risk sharing mechanisms are developed using notably existing good practices, when designing and implementing public/private schemes,
- Define the basis of a more harmonised strategy for Crowd-Funding allowing for co-investment schemes and extension of tax incentives schemes
- Promote new co-investment schemes with Business Angels and business angels syndicates at European and national levels, based on existing good practices in Europe or the rest of the world,
- Foster capacity building of Business Angels, Business angels syndicates and networks, their recognition and professionalisation, and facilitate cross border investments by developing a common accreditation system and BA European passport (e.g. through mutual recognition of fiscal incentives among angel investors in the Member States),
- Disseminate existing schemes encouraging successful entrepreneurs and investors to re-invest their gains through fiscal incentives,
- Use funding already available in Horizon 2020 to develop a public-private partnership for venture capital and early stage, using a fund of funds to bring global institutional investors back to Europe,

- Support corporate financing and the development of E-exit mechanisms to stimulate Business Angels and Venture Capital investments,
- Encourage Programs of Fiscal incentives, including at cross border level, in order to move more private investment to startup and early stage companies by sharing risk with the public sector and inspire professional approaches to the “nation-building” exercise of Europe’s citizens in investing in growth and the next generation,
- Develop the sustainability of the ecosystems, strengthening those already existing and promoting syndicates, clubs, networks, crowd funding, early stage funds, etc. and their representative bodies where they still do not exist in the EU,

Innovators and Entrepreneurs:

- Pursue efforts to build the European research and innovation area,
- Turn Europe into the easiest place to start and successfully grow a company,
- Simplify the regulatory environment and European administrative procedures as well as the language used by European Institutions with a clear and simple objective: each micro entrepreneur should be able to understand Commission directives, without the support of a lawyer,
- Institute an E-Corp: a new type of cross European company that can be created under 24 hours, possibly at a second stage with the same requirements across the EU and which would be invested in by investors holding E-Passports,
- Develop an E-scheme to attract talented people in Europe from all over the world (including young European citizens working in the Silicon valley), including an E-visa programme opening up the EU and facilitating mobility of skilled people between the Member States, to meet the scale-up and growth needs of enterprises,
- Pursue the digital and entrepreneurial revolution in the Education system from the primary School to the University,
- Promote the creation of a common E-pension fund for mobile researchers and innovators to facilitate their circulation in the EU,
- Create a label for the European innovative enterprises facilitating their access to state aids, fiscal incentives and public procurement,

- Facilitate the scaling-up of innovation-based incubators/accelerators, and the full deployment of the EU-BIC networked support scheme for innovative entrepreneurs,
- Support the adoption of quality-based labels for key-actors of the support ecosystem for innovators, entrepreneurs and investors,
- Encourage the empowerment of decentralized partnerships capable to steer the emergence of smart and specialized players embedded in smart and specialized ecosystems.

E-Zone Implementation:

Based on the framework conditions above and the creation of the E-Zone – which would be similar to a EU 29th Country or “Free Zone” and in order to kick-start the implementation of this E-Zone, we would like to suggest that special units at the EIB and the EIF be designated to work together with the private sector leading the way to implement two projects within 12 months which will a) bring together 150 Billion Euros worth of private investment funds from the private sector in Europe and around the world to invest in the E-Zone, and b) which will then be used to co-invest with private and private-led investors in innovative and growth companies to create true “European Success Stories”.

A lot of people say this cannot be done. And yet, we look at Estonia with its e-Residency programme and we say, “Yes! It can be done!, <http://e-estonia.com/e-residents/become-e-resident/>

As entrepreneurs would say, “Just Do It”. It can be done.

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Disclaimer: While the above people and organizations contributed to this paper, in no way can it be construed that their organizations adhere totally to all the suggestions above, time being an important impediment to getting official approvals for all suggestions.