



*European Economic and Social Committee*

**INT/812**  
**The Start-up and Scale-up Initiative**

## **OPINION**

European Economic and Social Committee

**Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Europe's next leaders: the Start-up and Scale-up Initiative**

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Legal basis	Article 304 of the Treaty on the Functioning of the European Union
Section responsible	Single Market, Production and Consumption
Adopted in section	04/05/2017
Adopted at plenary	31/05/2017
Plenary session No	526
Outcome of vote (for/against/abstentions)	194/0/0

## 1. **Conclusions and recommendations**

- 1.1 The EESC welcomes the European Commission's (EC) Start-up and Scale-up Initiative and the actions proposed which aim to remove key barriers, but stresses that not all high-growth enterprises are high-tech enterprises and that action is needed across sectors.
- 1.2 The EESC is of the opinion that an updated re-launch of the Small Business Act which would gather all initiatives into one agenda would be more relevant and would improve visibility and consistency.
- 1.3 The EESC calls for a coordinated policy approach for start-ups and scale-ups which takes into account the diversity of enterprise models, and welcomes the specific actions for social economy enterprises. However any initiative must strive towards an overall improvement of the entrepreneurial climate, enabling risk-taking and experimentation as part of the innovation process.
- 1.4 Administrative burdens and red tape continue to be a key barrier for start-ups and scale-ups. The EESC therefore urges the EC to fully implement and enforce initiatives taken in this area.
- 1.5 The EESC stresses the importance of the structural involvement of social partners as well as the importance of enforcing compliance with EU rules on working conditions, labour laws and collective agreements.
- 1.6 The EESC welcomes the proposed actions on innovation but calls for simplification of the rules and conditions given the limited resources of SMEs and micro-companies.
- 1.7 Strengthening partnerships and building communities of resources is a key success factor. The EC should promote networking, including the formation of intermediaries, facilitators, accelerators and incubators.
- 1.8 In order to unleash the growth potential of start-ups and scale-ups, it is essential to develop tailored financing with access to both equity and debt capital solutions, ensure access to procurement contracts and improve the fiscal environment. The EESC has explored suitable actions in its opinions.
- 1.9 Skills development is crucial, which is why focus must be placed on educational entrepreneurship programmes at all levels and at an early stage of the educational system. In addition, mentoring, on-the-job-training, and informal and non-formal learning programmes must be encouraged and promoted.
- 1.10 Action is needed to reduce the current high level of risk aversion in the EU by reviewing the second chance principle and providing development support such as financial literacy/education.
- 1.11 The EESC calls on the EC to bring together all the current and new initiatives to support social economy enterprises by issuing a communication with an Action Plan for the Social Economy.

This is in line with the Council Conclusions "The promotion of the social economy as a key driver of economic and social development in Europe" (7 December 2015).

## 2. Background

2.1 The Communication on Europe's next leaders: the *Start-up and Scale-up Initiative* states:

- High-growth firms create many more new jobs compared to other firms<sup>1</sup>. Start-ups scaling up into bigger firms form a large share of these businesses. They increase EU innovation and competitiveness, strengthening the economy. Such "scale-ups" can also provide social benefits, including offering more flexible and modern working arrangements. In its Single Market Strategy, the Commission announced that it will look at how to make the Single Market more efficient for start-ups and scale-ups.
- According to the results of a public consultation<sup>2</sup> by the Commission earlier in 2016:
  - start-ups looking to scale-up still face too many regulatory and administrative barriers especially in a cross-border situation;
  - for both start-ups and scale-ups, too few opportunities exist to find and engage with potential partners in finance, business and local authorities;
  - accessing finance is one of the biggest barriers to scaling up.

2.2 In its Communication, the Commission proposes a number of actions to be taken to reduce and/or eliminate these obstacles.

### 2.2.1 Removing barriers:

- Single Digital Gateway to provide easy online access to information,
- create a Single VAT Area,
- realisation of the Common Consolidated Corporate Tax Base (CCCTB),
- second Chance Regime and restructuring framework in Member States,
- better access to public procurement.

### 2.2.2 Help connecting with right partners:

- connecting with universities, research centres, investors and partners,
- accessing opportunities, finding people with the right skills, enhancing innovation opportunities – especially social start-ups.

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<sup>1</sup> According to Henrekson and Johansson, 2010, 4% of firms generate 70% of new jobs. See also: <http://www.kauffman.org/blogs/policy-dialogue/2015/august/deconstructing-job-creation-from-startups>.

<sup>2</sup> [http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item\\_id=8723](http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8723).

### 2.2.3 Access to finance:

- The European Fund for Strategic Investments (in addition to the Capital Markets Union).

## 3. General comments

- 3.1 This opinion is a reply to the European Commission (EC) Communication on "Europe's Next Leaders: the Start-up and Scale-up Initiative", which proposes measures to unleash the full potential of high-growth enterprises. However, the EESC has chosen to broaden the opinion's scope and reflect on these actions from the perspective of all forms of start-ups, including potential start-ups and scale-ups.
- 3.2 The EESC welcomes this initiative and the effort to remove key barriers. The EESC would like to highlight the extensive work done in previous opinions that aimed to create an enabling environment for diverse forms of enterprise in the EU<sup>3</sup>, as well as its previous call for more action on the entrepreneurial agenda<sup>4</sup>.
- 3.3 Since the Start-up and Scale-up Initiative is a development and extension of the Small Business Act, the EESC is of the opinion that it would be more efficient to consider an updated re-launch of the Small Business Act rather than continuing to launch separate measures. The EESC welcomes and supports this and other initiatives aiming to support start-ups and scale-ups, but it is difficult to gain an overview of the full agenda without gathering the different initiatives into a joint and comprehensive policy agenda.
- 3.4 The EESC underlines the need for a general effective policy package which takes into account the diversity of enterprises and therefore supports the EC's goal of promoting a coordinated approach across EU policies.
- 3.5 The EESC draws the EC's attention to an opinion<sup>5</sup> being drawn up by the EESC, which includes a number of recommendations very relevant to start-ups and scale-ups:
- a single one-stop-shop network for all EU SMEs,
  - make “think small first” and “once only” legally binding,
  - respond more appropriately to the variety of SMEs.

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<sup>3</sup> [OJ C 318, 23.12.2009, p. 22.](#)

<sup>4</sup> [OJ C 271, 19.9.2013, p. 61.](#)

<sup>5</sup> INT/787 (ongoing).

- 3.6 Furthermore, in the December 2016 opinion<sup>6</sup>, the EESC encourages the EC to promote high growth firms by:
- monitoring and achieving synergies between innovative policies delivered by different DGs;
  - reinforcing the clusters and ecosystems in which innovative start-ups are created;
  - encouraging an academic agenda focusing on jobs for the future.
- 3.7 It is, in particular, important to recognise the great potential in existing micro-companies, many of which are family businesses, as well as the development opportunities in the social economy enterprise sphere. In addition, the EESC urges the EC to consider the fact that not all high-growth enterprises are in the high-tech sector and that sectors such as the service sector, the fashion industry and e-commerce, as well as other innovative sectors, also need focus and support.
- 3.8 The EESC also urges the EC to ensure that any initiatives also take into account the new business phenomena emerging, such as the collaborative economy<sup>7</sup>. All these share similar and additional obstacles when starting up and expanding in the single market.
- 3.9 The EESC welcomes the action to introduce a Single Digital Gateway to improve access to information, but is of the view that this tool will have limited impact on reducing the burdensome rules and regulations. The EESC also suggests that an internet portal on research and development should be included in this Single Digital Gateway. Structural cooperation with intermediary organisations is a very effective means of improving information for start-ups.
- 3.10 The EC addresses some of the most urgent barriers, especially in the areas of regulatory, tax and administrative burdens. The EESC wishes to stress that SMEs, including micro-companies, and family or social economy enterprises, often have little or no in-house competence to manage the very complex and bureaucratic regulations and administrative burdens, which is why simplification is key.
- 3.11 The EESC supports the proposed peer reviews to share good practices and identify differences between Member States, with the aim of better harmonising initiatives. To be effective, the peer reviews' findings must be transparent and disseminated among stakeholders.
- 3.12 The EESC also supports the EC's decision to expand the Enterprise Europe Network's (EEN) advisory service with dedicated start-up and scale-up advisors, advising on national and European rules, funding opportunities, partnering and access to cross-border public procurement. Here again the EESC wishes to highlight the importance and benefits of more structural cooperation with intermediary bodies and involved organisations, also within the social economy.

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<sup>6</sup> [OJ C 75, 10.3.2017, p. 6.](#)

<sup>7</sup> [OJ C 75, 10.3.2017, p. 33.](#)

- 3.13 The EESC supports the EC's intentions to include start-ups and scale-ups in international trade agreements, since an increasing number of start-up and scale-up companies must reach a global market rapidly (often in a very limited segment).
- 3.14 The EESC acknowledges and supports the EC's commitment, expressed in this initiative, to enforce compliance with EU rules on working conditions, labour laws and collective agreements and to aim for high-quality jobs.
- 3.15 The EESC wishes to respond to the following wording in the EC communication: "including offering more flexible and modern working arrangements". This statement may give rise to misunderstanding and potential abuse.
- 3.16 The structural involvement of social partners is crucial and should be encouraged so as to guarantee fair competition amongst enterprises and to avoid the risk of social dumping, as the EESC has emphasised in several opinions<sup>8</sup>.
- 3.17 The EESC wishes to address the present process on geo-blocking<sup>9</sup>. This could be a big new obstacle for start-ups and scale-ups that have no capacity to enter several countries with different languages at the same time. It is crucial to communicate the difference between active and passive sales! Adherence to national legislation is only required for the countries which are actively targeted.
- 3.18 The EESC supports the proposal to improve SMEs', especially scale-ups', access to Horizon 2020 programmes. The European Innovation Council and the Innovation Radar can be effective instruments, provided they are not too burdensome, and can indeed reach the intended SME targets. Furthermore, the EESC recommends that these initiatives pay specific attention to social innovation, which often drives new business models.
- 3.19 The EESC also welcomes the specific mention of action to start up and scale up the social economy and social enterprise, an area where the EESC has specific expertise and has issued opinions<sup>10</sup>.
- 3.20 The EESC notes with satisfaction that the EC recognises that SMEs have great difficulties defending their intellectual property rights. The cost is extremely high for a small company, and enforcement costs are equally high, meaning that hardly any start-up or scale-up company can afford it. The EESC calls on the EC to find a workable solution to address this

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<sup>8</sup> [OJ C 161, 6.6.2013, p. 14; OJ C 303, 19.8.2016, p. 54; OJ C 13, 15.1.2016, p. 2.](#)

<sup>9</sup> COM(2016) 289 final.

<sup>10</sup> [http://www.eesc.europa.eu/?i=portal.en.social-entrepreneurship-make-it-happen.](http://www.eesc.europa.eu/?i=portal.en.social-entrepreneurship-make-it-happen)

## 4. Specific comments

### 4.1 Partners, clusters and ecosystems

4.1.1 A general positive entrepreneurial climate is a cornerstone of growth and innovation. The EESC is of the view that this EC initiative can only succeed if it strives for an overall improvement of the entrepreneurial climate, allowing for risk-taking and experimentation as part of the innovation process.

4.1.2 The EESC agrees with the EC that it is very important for start-ups and especially scale-ups to connect with the right partners. Since the European market is generally more traditional in terms of risk-taking, as well as primarily national, it is necessary to divide the effort along two main lines:

- 1) The EU and the Member States, in permanent cooperation with intermediary organisations and bodies, can play an important role in facilitating clusters with universities, research centres, etc.
- 2) To find investors and business partners, only the market can play a role, not underestimating European programmes or the role of the EIB/EIF. However these programmes must be stepped up and better coordinated.

4.1.3 The EESC supports the EC's plan to reinforce the current Start-up Europe initiative and to coordinate EU work to connect clusters and ecosystems across Europe.

4.1.4 The EESC supports the fact that the EC highlights the creation of communities with partnerships and tailored ecosystems as key factors for successful start-ups and scale-ups. In this context, the EESC welcomes the fact that the EC pays specific attention to the social economy enterprise, recognising its specific features and contributions to European societies. The EESC therefore once again<sup>11</sup> urges the EC to bring together all current and new initiatives into a coherent EU Action Plan for the Social Economy, with the aim of improving visibility and the interconnection between the various initiatives.

### 4.2 Procurement opportunities

4.2.1 The EESC strongly supports the EC's intention of improving the procurement opportunities for start-ups and scale-ups. In addition to the actions proposed, the EESC calls on the EC to closely monitor the transposition and application of the procurement directive at Member State level. This is key to ensuring that Member States take full advantage of the provisions available for improving the procurement opportunities for SMEs, including social economy enterprises. The EESC refers to its earlier opinion on procurement<sup>12</sup>.

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<sup>11</sup> EESC Contribution to the EC Work Programme 2017, <http://www.eesc.europa.eu/?i=portal.en.publications.40059>.

<sup>12</sup> [OJ C 191, 29.6.2012, p. 84](#).

4.2.2 The EESC welcomes the fact that the Communication pays specific attention to innovation procurement and the Innovation Partnership. However, this requires a simplified set of regulations. Innovation procurement, as described in the directive, appears to be better suited for large companies. Participation in innovation partnerships requires identification of a separate unit, which prevents start-ups and scale-ups from being eligible, since start-ups normally do not have a specifically dedicated department.

4.2.3 The EESC wishes to highlight that the introduction of the EC tool (self-declaration using the European Single Procurement Document (ESPD)) aimed at helping SMEs to take part in public procurement, has in many cases had the opposite result and is perceived as a barrier to participation in procurement. Start-ups and scale-ups struggle to gather all the necessary information and forms required. This is why support is necessary and should be promoted by intermediary organisations (SME organisations and other related organisations).

### 4.3 **Skills**

4.3.1 The EESC agrees that the New Skills Agenda for Europe, with its dual focus on quality and skills relevant to the labour market, addresses some of the most important challenges. However, this will only be successful if the initiatives reach the most important target groups, which requires implementation, monitoring and follow-up to ensure effectiveness.

4.3.2 The EESC highlights that the New Skills Agenda for Europe, and in particular the forthcoming initiative on the Digital Skills and Job Coalition, will be extremely important and can be a cornerstone for the future.

4.3.3 Social economy enterprises develop responses to new or inadequately addressed social needs. They are pioneers in social innovation. Therefore, in addition to digital skill initiatives, social economy (and other) entrepreneurs are expressing a need for action in other skill areas, such as business development and investment readiness. These skills are equally important to a successful start-up.

4.3.4 The EESC urges the EC to encourage and assist Member States to set up educational schemes for entrepreneurs but also to facilitate best practices between Member States and stakeholders. It is advisable to adopt such programmes early in the education system since this has been proven to have a greater effect.

4.3.5 Furthermore, incubators and one-stop-shop services (such as development, mentoring and financial support) are often crucial in the early and scale-up stages. The EC should promote and share best practices in this field.

### 4.4 **Taxation**

4.4.1 The EESC shares the EC's concern that taxation can constitute a considerable obstacle for start-ups and scale-ups. Key points to address are the high compliance costs, in particularly those caused by varied national tax schemes.

- 4.4.2 The EESC calls on the EC to consider the possibility of placing no limit in terms of size or time on the carry-forward of losses that are incurred when initially starting and scaling up enterprises.
- 4.4.3 The EESC also welcomes the possibility for SMEs of being able to opt into the system of a Common Consolidated Tax Base, as outlined in the EC Communication.
- 4.4.4 Furthermore, consumption taxation within the VAT system is very complex for SMEs. In addition, there is an extra burden on start-ups in identifying the applicable VAT rate for each particular good or service in Member States, resulting in high costs, which ultimately discourage cross-border trade. The EESC therefore supports the EC's intention to create a Single VAT Area and the VAT simplification package for SMEs, including start-ups, which will address a serious barrier to micro-companies.
- 4.4.5 The taxation of investment income at the individual level in many Member States also discourages investment in start-ups and scale-ups, in particular if other investment alternatives face a lower tax burden or no taxation at all. Taxation of stock options may in this respect need special attention. The EESC therefore supports the continued monitoring by the EC of Member States' tax schemes/incentives for investments in start-ups/scale-ups.
- 4.4.6 Social economy enterprises must have a fiscal environment that enables them to reach their full economic potential while taking into account their environmental and social objectives and in accordance with the principles of free competition on equal terms. A variety of measures are possible:
- mapping the various existing tax incentives associated with financing social economy enterprises, in order to spread best practice;
  - promoting social innovation through:
    - tax credits for donations or lower return investments in social innovation that addresses societal priorities;
    - opening up refundable tax credits for research and development to non-profit enterprises, with a view to developing innovation that has a positive social impact and improving productivity in services for individuals and local services.

## 4.5 Access to finance

- 4.5.1 Start-ups and scale-ups rely on access to equity and debt capital. The EESC has in earlier opinions<sup>13</sup> noted that access to venture capital is considerably lower in the EU than in the USA, the main reason being the highly fragmented EU venture capital industry (concentrated in certain Member States). The EESC acknowledges that the EC addresses this issue by creating the pan-European Venture Capital Fund, and calls on the EC to take note of the EESC's proposals<sup>14</sup> and closely monitor its uptake and effects.

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<sup>13</sup> [OJ C 75, 10.3.2017, p. 6.](#)

<sup>14</sup> [OJ C 75, 10.3.2017, p. 48.](#)

- 4.5.2 In the same opinion we pointed to the insufficient involvement of private investors, and recommended incentives for public-private partnerships, where asymmetric funds could be considered (they already exist in Finland, the UK, Greece and the Netherlands). The EESC now welcomes a similar solution allowing privately owned investment funds to benefit from public guarantees of investments in start-ups and scale-ups.
- 4.5.3 The EESC also welcomes the proposal to increase the budget for EFSI and COSME to provide additional financing for an effective policy for start-ups and scale-ups, taking into consideration their diversity.
- 4.5.4 However, it is important to underline that the majority of start-ups are funded by bank loans tied to personal and family guarantees. While bank loans are a reality, access to equity as a financial tool is also needed but is not sufficiently developed in Europe due to punitive tax regimes, lack of equity culture, poor financial literacy and fragmented insolvency regimes.
- 4.5.5 The EESC encourages the EU Member States, with the support of the EC, to promote and search for alternative legal forms of doing business, for example the Simple Joint Stock Company with high innovation potential for growth, typical of start-ups (France and Slovakia).
- 4.5.6 The EESC also encourages the Member States, with the support of the EC, to simplify and harmonise bankruptcy laws, including the implementation of the “second chance principle” proposed in the EESC opinion on business insolvency<sup>15</sup>.
- 4.5.7 In the insolvency procedure and legislation, the challenge is to value the assets of failing start-ups appropriately. In many cases, the main asset is know-how rather than fixed assets, as the EESC has previously pointed out<sup>16</sup>.
- 4.5.8 In previous opinions the EESC fully explored the financial eco-system<sup>17</sup> required for social economy enterprises. In common with other start-ups, there is a need to provide blended capital solutions with a guarantee element, as well as innovative instruments for second-stage financing and financial education including investment readiness. A particular feature of investments in and financing of social economy enterprises is that the return on investment also includes the social impact. The EC should support the Member States in ventures in this direction.

## 5. **Specific considerations for social economy enterprises and newly emerging forms of enterprise**

- 5.1 The EESC welcomes the fact that the Communication in particular highlights specific action for the social economy enterprise sector, as well as exploring further measures for emerging business models.

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<sup>15</sup> INT/810 Business Insolvency (not yet published in the OJ).

<sup>16</sup> [OJ C 75, 10.3.2017, p. 6.](#)

<sup>17</sup> [OJ C 13, 15.1.2016, p. 152.](#)

- 5.2 In this context it is crucial to mention the link between social innovation and the start-up of social economy enterprises and new business models, which the EESC has explored previously<sup>18</sup>. Understanding that social innovation builds on a different innovation process based on specific criteria and principles is central. Any action to support social economy enterprises start-ups and new business models must therefore recognise the key underlying values such as measuring social and environmental impacts, shared value and open source aspects which are linked to social innovation<sup>19</sup>. Only then can social economy enterprises and these new emerging forms of social enterprise take advantage of support measures, be sustainable and scale up successfully.
- 5.3 It is also important to understand how and whether social economy enterprises and these new forms of enterprises scale up (they may instead choose to share a good idea rather than to scale-up themselves). As stressed by the EESC previously, the key is to fully mainstream the logic of these diverse enterprise models into any start-up and scale-up initiatives and to tailor support instruments appropriately. Support mechanisms are often based on the traditional company model, which is today the norm, rather than on these social economy or newly emerging economic models.

## 6. Further needs identified

- 6.1 The EESC has continuously stressed the need to increase the visibility, recognition and promotion of diverse forms of enterprise. This includes better collection of statistics and research into the various business models and their specific logics which exist in the EU today.
- 6.2 A database of good practices regarding measures to promote start-ups and scale-ups in all their diversity could be very useful. The EC is well placed to facilitate this exchange of best practices from Member States.
- 6.3 The values, principles and *raison d'être* of social economy enterprises should be promoted, since they can be inspirational to entrepreneurs. Experiences and methods from this sector can easily be transferred to other enterprise models, such as principles of partnership and affiliation based on co-creation across sectors and stakeholders, licensing agreements, capacity-building, piggybacking which allows for leveraging the scale of other companies, open source for the rapid diffusion of solutions, smart networks building on shared and collective value and setting new standards such as movements aimed at policy change. An example of the latter is that social innovation usually leads to social policy innovation. In the same way, conventional enterprises can inspire social economy enterprises, for example in marketing, sales and business management, again demonstrating the value of best practice exchange.
- 6.4 The EESC is well placed – representing European civil society – to actively participate in promoting and enhancing entrepreneurial development in the EU for the benefit of employment,

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<sup>18</sup> [OJ C 303, 19.8.2016, p. 28.](#)

<sup>19</sup> Social Innovation Index developed by Europe Tomorrow and [OJ C 458, 19.12.2014, p. 14.](#)

social welfare and growth. We therefore offer our capacity and capabilities to the EC for further initiatives for SMEs, including social economy enterprises.

Brussels, 31 May 2017

Georges DASSIS

The President of the European Economic and Social Committee

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