France Digitale
Jouons collectif

France Digitale's feedback for the European Innovation Act

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Context

France Digitale is Europe's leading startup association, bringing together 1,800 start-ups and 200 investment funds. It is co-chaired by Frédéric Mazzella, founder of BlaBlaCar, and Benoist Grossmann, CEO of Eurazeo Investment Manager.

The Startup and Scaleup Strategy recognises the paramount role of startups in Europe's society and economy, marking a long-sought achievement for the innovation ecosystem. It also reflects several of the key measures proposed in France Digitale's Manifesto for the 2024 European Elections.

Together with the 28th regime (see our answer to the consultation here), the European Innovation Act has the potential to break down barriers to innovation and sustainable growth, if it addresses the challenges highlighted by startups and scaleups from across Europe.

Executive summary

To strengthen the innovation ecosystem, France Digitale has long advocated for greater support of European companies through public procurement, the mobilisation of institutional investment, and regulatory frameworks that reflect the fast-paced, dynamic nature of innovation.
If a definition of an "innovative company" is deemed necessary, we urge that it be as inclusive as possible. Such a definition should account for the entire lifecycle of a startup and avoid adding unnecessary administrative burdens on companies driving innovation.
The innovation landscape in Europe requires a mindset shift, from fragmented, national approaches to a more unified strategy that champions and enables truly European success stories. In this context, establishing a one-stop shop in each Member State (a

single point of contact for all employment, tax, and legal formalities) would greatly facilitate cross-border expansion for startups.
Regarding employee ownership schemes, taxation should be harmonised and deferred until the point of share sale, when employees receive tangible financial benefit. Additionally, the calculation of capital gains should be standardised across the EU, while allowing Member States the flexibility to set tax rates in line with their fiscal sovereignty.
Finally, regulatory sandboxes should be actively encouraged. Clear pathways for both entry into and exit from these frameworks must be developed to ensure they serve as effective tools for innovation, rather than temporary exceptions.

France Digitale's answer to the call for evidence

I. <u>If a definition of innovative company were considered necessary</u>

Experience shows that it is not a legal definition that creates an efficient startup ecosystem. Many of the world's most innovative countries and thriving startup hubs operate without one, and in the European countries where such definitions do exist, they have both positive and negative sides for the innovation ecosystem.

If a harmonised definition could help to measure the impact of the EU's proposals and to have targeted simplification or support measures, it must reflect the real needs of the rapidly evolving ecosystem and consider the entire life-cycle of startups and their ecosystem. More precisely, such a definition should be broad enough to encompass both the early-stage and scale-up phases, as well as startups' different focuses across time, i.e. research, market fit, European and international expansion.

France Digitale advocates for a single definition of "innovative companies" based on qualitative criteria, such as innovation itself, in order to foster long-term growth rather than adding bureaucratic processes, new categories and restrictions to be taken into account. To reflect the diversity of the European tech ecosystem, such a definition should not only include startups and scaleups but also tech mid-cap companies, which are key drivers that power and sustain the European innovative ecosystem across the entire tech value chain.

While the scope and application of the measures that we propose below are intended to extend beyond this category, our position on the definition of "innovative companies" is outlined in the annex to this document.

II. <u>A need for a shift in mentalities for European tech champions to emerge in Europe</u>

Albeit the principle of non-discrimination (Art 18 TFEU) is a cornerstone of the European Union, it is not consistently upheld by private and public actors across the Member States.
In today's highly competitive global tech landscape, **European countries must shift from a fragmented, nationalistic approach to one that embraces and supports truly European champions**. This shift should be reflected not only in state aid measures but also in investment strategies, both of which too often favor national ecosystems over broader European potential (home bias). Startups from neighboring EU countries should not be treated as foreign entities, but as integral parts of a shared innovation ecosystem.

> *"Scaling in Europe often means hiring talent across multiple countries, which naturally leads to setting up local affiliates, where resources are. Yet, ownership of the IP is often centralised in the parent company in the home country. This becomes a barrier as national investors are often reluctant to invest in companies whose IP or legal entity isn't domestic, even when offered equity in the parent company*." Anna Riverola, Group International Development & Research Program at SiPearl

Hopefully, **the creation of a 28th regime should help create a European mindset**.
This European mindset should also be reflected in merger control policies. To scale effectively, startups must be able to consolidate across borders, merging operations, talent, and resources at the European level. Without this flexibility, Europe's companies will remain fragmented and unable to compete with global tech giants.

Consolidation is crucial for startups to reach critical scale, allowing them to compete with global players internationally. If European authorities are hesitant to let startups acquire their peers, the question remains: who will? Large corporations in Europe often lack both the financial capacity and the acquisition culture to buy startups.

III. Cross-border expansion: easing tax and employment law compliance in the EU

For startups, expanding abroad often comes with an overwhelming burden, particularly in complying with local tax and employment laws.
The fragmentation of employment law makes HR management complex and costly. Employees may end up receiving different treatment depending on their location, which undermines cohesion and fairness within cross-border teams.

Even for limited activity in another Member State, companies must file local tax declarations, hire local accountants, and manage a maze of administrative procedures. These obligations are often disproportionate to the scale of operations, making the cost of legal and compliance services unsustainable. This discourages startups from hiring employees abroad or entering new markets altogether.

> "*In order to expand in several EU countries outside France, we recruited local employees to start discussing with local Universities for partnerships. For each country, we had to do a local employment contract - meaning specific costs (local pay, local lawyer, time from HQ) just for one employee.*
>
> *And then, we had to open local branches since it is required as long as you have local employees or revenues - meaning additional specific costs (local accountant, local bank, time for HQ). All in all, the entry cost is very high, and since we had to shut down some of the branches where we did not succeed - which was again very costly -, the overall result is a very high cost (in time and money) of testing a new market.*
>
> *Having thresholds before having to get local employment contracts or local entities would go a long way to reduce the cost of testing a new market.*"
>
> Nicolas Lombard, co-founder and board member of JobTeaser

The real challenge lies in the multiplicity of rules, procedures, and points of contact, which becomes exponentially more complex when dealing with several Member States. A practical first step would be **the creation of a one-stop-shop in each Member State, a single point of contact for all employment, tax, and legal formalities, especially designed with startups and SMEs in mind**.

With this in mind, we welcome proposed initiatives, such as the Framework for Income Taxation (BEFIT)[1], which proposes a new legislative framework for corporate taxation in the EU, and the Head Office Tax System for SMEs (HOT)[2], which allows SMEs operating cross-border by way of permanent establishments the option to interact with only one tax administration. These two proposals are going in the right direction, and we call for a rapid and efficient application across the continent, as well as future efforts in the field.

IV. Harmonisation of employee ownership schemes in the EU

Surveys from across Europe consistently indicate that hiring the right talents is one of the top bottle necks for the growth of European startups.[3]

Europe's excellent educational institutions produce a large proportion of the world's most promising software engineers, data scientists and designers. These individuals are in high demand from the largest and most deep-pocketed corporations, including those of Silicon Valley and Wall Street.

European startups are unable to compete for this talent with salary and benefits alone. But they can offer employees a meaningful ownership stake, in the form of stock options, rewarding the risk employees take with a young unproven business with a promise of a payout should the startup succeed.

However, the treatment of stock options varies widely across Europe, due to each country's distinct tax frameworks' design and tax treatment. Some countries have regulatory and tax regimes which are at least as favourable as those in the US, but the majority lag behind. This fragmentation creates legal uncertainty and limits the effectiveness of equity-based compensation, a key tool for attracting and retaining talent in startups.

We believe that **creating a level-playing field across Europe, will boost the growth prospects of startups and help entrepreneurs secure the best talent**. While entrepreneurs and investors need to do their part to increase the stake given to employees, policy changes are critical to making such incentives feasible and attractive.

We thus call for European policymakers to **encourage and harmonise employee ownership in startups** through 7 policy recommendations built on the *Not optional campaign*.
The goal should be to harmonise what can reasonably be harmonised without undermining the fiscal sovereignty of Member States:

1. **Create a stock option scheme that is open to as many startups and employees as possible**, offering favourable treatment in terms of regulation and taxation.

[1] European Commission. Business in Europe: Framework for Income Taxation (BEFIT) (2024)
[2] European Commission. Head Office Tax System for SMEs (HOT) (2024)
[3] 2023 Startup Barometer: social and economic performance of French startups. EY & France Digitale (2023) and State of European Tech 2022. Atomico, Lazard, Orrick, SVB UK, Slush (2022)

Design a single scheme based on existing models in the UK, Estonia or France to avoid further fragmentation and complexity.

2. **Allow startups to issue stock options with non-voting rights**, to avoid the burden of having to consult large numbers of minority shareholders.
3. **Defer and harmonise employee taxation to the point of sale of shares**, when employees receive cash benefit for the first time. Employees should only face a taxable event at the moment of share sale, not at the point of option grant or exercise.
4. Allow startups to issue stock options based on an accepted 'fair market valuation', which removes tax uncertainty. We call for an **harmonisation of the capital gains calculation**: a common method for calculating gains should be established across Member States. At the same time, **national flexibility on rates** should be preserved as they follow into Member States' fiscal sovereignty. While the method would be harmonised, each country would retain the ability to set its own tax rates.
5. Apply **capital gains** or (even better) **tax rates** to employee share sales.
6. Reduce or **remove corporate taxes associated with the use of stock options**.
7. Make the share option scheme more widely **available to all employees**.

Equity compensation is the only meaningful way to bridge that gap between European startups and US firms or big corporations, and incentivise talent.
Uniformity would also ensure fair treatment for employees working across borders within the same group, reinforcing a sense of unity and belonging across multinational teams.

The harmonisation of employee ownership schemes can be concretised:

(i) in a standalone piece of legislation, preferably a Regulation to ensure greater harmonisation across Member States;

(ii) within the European Innovation Act – if the employee ownership schemes are attributed to all innovative companies, including startups, scaleups and tech mid-cap companies, or

(iii) within the 28th regime.

We advocate for these schemes to be attributed to all the companies subjected to the 28th regime or, failing this, to all innovative companies – including both startups and scaleups and tech mid-cap companies.

The retention of European talent within innovative companies is essential to mitigating the risk of "brain drain" toward non-EU actors, while simultaneously reinforcing the resilience of the local ecosystem and reducing strategic technological dependencies. Addressing this challenge requires well-targeted policy measures and sustained investment in homegrown developed technologies, thereby limiting reliance on non-European software and hardware, and fostering the adoption of solutions consistent with EU values and regulatory frameworks. This strategic approach not only strengthens the competitiveness of Europe's tech sector but also guarantees that European end users have access to a broad spectrum of solutions tailored to the specific needs of the European market.

V. <u>How to make regulatory sandboxes effective</u>

Sandboxes are useful tools that enable innovators to test solutions under real-word conditions, while benefiting from temporarily reduced regulatory and procedural barriers.

They accelerate market access, foster innovation and provide regulators with valuable insights, thus they should exist in every sector.

However, the availability of sandboxes often depends on sector-specific rules and market access conditions, which creates uneven opportunities across the Union when they are regulated at national level. For instance, in areas like health, sandboxes are left to the discretion of Member States. Harmonisation is crucial: wherever possible, sandboxes should be aligned across sectors and Member States. We encourage the Commission **not to delegate all decisions related to the implementation of sandboxes to Member States in order to avoid fragmentation** of regulatory regimes in all sectors that allow so. Consistency across Member States will reduce redundancy, cut costs and lower red tape preventing startups from having to navigate multiple national sandboxes.

To ensure their takeup, sandboxes should:

- Be accessible under the **same conditions across the Union**
- Be **free of charge for startups and innovative companies**
- Provide a **presumption of conformity recognised by the competent authorities** in their assessment
- Allow for **real-life testing** both within and outside the sandbox, with participants agreement, to maximise the accuracy of the digital systems before their market launch.

Clarity and predictability are essential. Sandboxes must have clearly defined **eligibility criteria, duration** and most importantly a precise **list of regulatory obligations from which participants are exempted**.
Eligibility criteria should reflect both security conditions and the sandbox's policy objectives. While sandboxes must remain free and simplified for startups and innovative companies, they can also be opened to established companies testing new innovations.

For a sandbox to function effectively, both entry and exit must be carefully managed and anticipated.
Entry conditions must **strike the right balance between innovation and protection:**

1. **Minimum safeguards**: baseline security and consumer protection requirements must be defined. Even within the sandbox, risks must be controlled.
2. **Ongoing regulator-innovator dialogue**: a continuous dialogue between the companies in the sandbox and the regulator must be established. This will enable a test-and-learn process while ensuring compliance guidance. Regulators must be adequately trained and resourced to oversee sandbox activities.
3. **Clear duration**: a sufficient time for testing and preparing the transition to the common legal framework must be set. For example, in France, sandboxes for remote surveillance lasted three years per company, with a five-year overall programme. Closing entry after five years risked limiting innovation, but the aim of the regulator to test remote surveillance was considered to be achieved.

Exiting a sandbox is as critical as entering it. The following measures must be in place:

4. **A structured transition phase**: a mechanism to support companies' compliance with new obligations and smooth transition into the common legal framework. Continuous regulatory guidance and open dialogue between the innovator and the regulator must be assured in the transition phase too.

5. **Capacity-building for regulators**: ensure that authorities overseeing general rules understand sandboxes and can appreciate the innovation phase companies went through.
6. **Using sandbox insights**: collect and leverage data and feedback from sandbox participants to improve their transition phase and refine future regulation.

Finally, as mentioned in the Letta Report, Member States should also create **innovation procurement sandboxes**. These would help companies navigate procurement rules, ensuring innovative solutions can compete effectively in public tenders.

VI. Unlocking data while building infrastructure

EU tech investments need to match market needs. At the AI Action Summit, the Commission announced 150 billion EUR investment in AI infrastructure to ensure startups have access to computing power[4]. However, only 11% of French AI startups say that access to computing power is a challenge, behind recruitment and access to data. Indeed, **startups' primary need is access to data**[5].

It is a question of competitiveness with third country companies. In practice, this requires greatly **simplifying access to public and protected data**, securing the legal framework applicable to data and harmonising European law with non-European rules[6]. Moreover, the Commission should make sure that its investments, especially major tech infrastructure investment, answer real market needs, for example by involving industry stakeholders not only in the consultation process but also in the definition of such projects.

Energy consumption is becoming a concern for 10% of French AI startups, which may find themselves in a situation of conflict of use in the medium-term programming of the energy resources necessary for the development of their solutions, in a context of increased competition with 'big players' present on French territory and benefiting from French energy infrastructure.

VII. Supporting European tech companies through procurement

Finding clients is a key objective for any company. **Public and private procurement offer much more long-term advantages** to startups than grants and co-investments since they reinforce startups' financial position and sustainability in the long run. European public services are prestigious clients for the rapidly growing companies, and trusting their services also means supporting employment, growth and consequently tax revenue in Europe.

In the current geopolitical and economic context, in both public and private procurement, **the EU should shift from the Most Economically Advantageous Tender (MEAT) principle to a "Most Strategic Approach", taking into consideration criteria such as innovation and resilience of chosen solutions**.

[4] European Commission (2025). Speech by President von der Leyen at the Artificial Intelligence Action Summit
[5] France Digitale (2025). Mapping des startups françaises de l'IA
[6] France Digitale (2024). IA générative et droit d'auteur : quelle place pour les données européennes protégées à l'ère de l'IA ?

In 2021, with the Digital Europe Programme, the Commission introduced the possibility to limit tenders to *"beneficiaries established in Member States and specific associated countries or other third countries, where there are security reasons for such limitation or where the actions directly relate to the Union's strategic autonomy*"[7]. In 2023, the Commission went a step further with the Net Zero Industry Act, which introduced non-price criteria, such as a resilience, to incentivise the purchase of European cleantech solutions[8]. In 2025, **a set of non-price criteria concerning strategic autonomy, innovation and ESG should be mainstreamed in public and private procurement**. Indexes such as the "*Indice de résilience numérique* (IRN)" and Nextcloud's Digital Sovereignty Index can be leveraged as non-discriminatory award criteria measuring resilience, supply chain independence and vendor lock-in risks. These criteria would also be WTO-compatible in the short term, even if we believe that WTO agreements should be reviewed and reinterpreted in light of recent trade developments, notably with the US.

Public procurement can enhance the EU's resilience, industrial and economic development, and strategic autonomy. Having more **strategic objectives in public spending can have positive externalities at EU level** (on the resilience of our health sectors, our security, economic growth and job creation)[9]. **Yet, strategic procurement in the EU remains limited to some industries** (cleantech, supercomputers, artificial intelligence, cybersecurity...), whereas in the US it is much more widespread.

For example, the Commission's proposal for the Multiannual Financial Framework 2028-2034 foresees an increase in administrative costs (2% per year), which includes investment in IT and cybersecurity systems. This would be the perfect opportunity to extend the European preference to IT procurement to ensure a certain portion is attributed to European providers and thus avoid it being entirely captured by Big Tech.

At the same time, having more sovereignty requirements might exclude some of our most promising startups. As the tech value chain of Europe is broken, many European startups integrate a portion of foreign investors or produce outside of the continent, despite having their R&D and employees in Europe. Such companies should not be excluded from a potential European preference in procurement if they have their legal headquarters in Europe.

We thus call for a European preference to be generalised in public procurement and to concern the entire value chain of the digital sector, from hardware to software. The criteria to define what is European should avoid adding bureaucratic burden to startups, allowing non-European companies to circumvent them and hampering innovation by imposing a 100% European value chain, as all value chains in technology are currently global[10].

To define a European company, a sole excluding criteria should be considered: the parental company needs to be in the EU. Other complementary criteria may include fiscal residence and corporate tax paid in Europe, and environmental and social criteria, that

[7] European Union, Regulation (EU) 2021/694 of the European Parliament and of the Council of 29 April 2021 establishing the Digital Europe Programme and repealing Decision (EU) 2015/2240, Art18
[8] European Union, Regulation (EU) 2024/1735 of the European Parliament and of the Council of 13 June 2024 on establishing a framework of measures for strengthening Europe's net-zero technology manufacturing ecosystem (2024)
[9] Tribune. L'appel des start-up : "Il est temps de créer un Buy European Tech Act". Le Nouvel Observateur (2022)
[10] France Digitale's study on generative AI

companies should be able to prove through already existing documentation, without adding red tape.

Concerning **innovation in procurement, this should not be a specific procurement procedure, but rather a mindset that buyers must adopt in every procedure**. We thus advise mainstreaming innovation along the whole procurement process through flexible rules and concrete incentives, such as derisking purchases for public buyers or giving them some benefit if they opt for innovation procurement.

In both private and public procurement, **brand and overall awareness of European innovative actors is crucial to boost their adoption**, especially in a continent that is overwhelmingly dependent on foreign technology. One of the greatest outcomes of the *French Tech* initiative is that it has built a branding around the French ecosystem of startups. This has led to several programs, such as a French Tech visa for foreign talents and the *Je choisis la French Tech* initiative ('I choose French Tech'), which creates bridges between large corporations and public institutions on one side and the startups on the other to favour procurement. While the program has not had a massive impact in terms of contractualisation yet, the marketing effort to push administrations to buy French solutions, rather than US or Asian alternatives, is notable and should be expanded on the European level[11]. On that front, **the European Union must work on marketing tools to increase the knowledge of European solutions to a wider audience and make them attractive for private and public buyers**. The European Innovation Council participation in industry events, with booths and delegations of startups, is a first step in this direction. At France Digitale we also produce a yearly Leading European Tech Scale-ups initiative (the LETS)[12], which maps the largest national champions in every country and raises awareness on which solutions are available at the European level. To achieve concrete results, the EU should lead by example. One way to go would be to **promote a commitment charter for Member States, pledging a specific "Buy European" target to be achieved by 2030 towards European young and innovative companies**. This could be accompanied by a **yearly ranking of the best public buyers** of innovation across Europe, in terms of strategic autonomy, sustainability and in an arena that would enhance best practices exchanges. We hope this approach could also be replicated to foster more private procurement between European large corporations and startups.

Public procurement must become a strategic industrial policy tool to advance Europe's strategic autonomy by ensuring that key digital services are developed by European players. This calls for the creation of a **new procurement mechanism**, focused on high-priority technologies such as cloud and AI, designed to grow European providers. Rather than subsidies, the scheme should rely on guaranteed revenue contracts in return for substantial investment in research, innovation, and development – thereby **incentivising European firms to build critical technologies**.

This mechanism could take the form of a "Service Development Call" (SDC) in which a public entity could select an organization or consortium to develop a new service over several years with guaranteed revenue for this period. The SDC would follow five steps:

1) **Identify a need** (e.g. AI, cloud services, digital tools);
2) **Engage with public and private organisations** to confirm whether this service addresses an unmet demand;

[11] Bourgin, Y. L'État dresse le premier bilan du programme "Je choisis la French Tech", *l'Usine Digitale* (2024).
[12] France Digitale, LETS 2024, the mapping of 251 Leading European Tech Scale-ups that are succeeding globally (2024)

3) **Secure financial commitments** from interested organisations (e.g. €1M/year) to ensure uptake of the service;
4) **Launch a call for tenders** to fund the service development;
5) **Award development to the winner**, who will build the product within two years and benefit from guaranteed revenues (e.g. €50M over 3–5 years) from the moment the service is launched.

This model not only reduces Europe's technological dependency but also creates a predictable market for innovative European players.

Moreover, the current public procurement rules should be reviewed in an ambitious way, so as to not be re-shaped every couple of years while allowing for flexible changes if needs be before a 10 year-time period would pass prior to the next revision.

1. We recommend **making data on tenders and their winners more easily accessible**. Despite some good willingness to help companies access public procurement, the TED (tenders electronic daily) platform is only known by 19% of startups[13]. A better link to the incubators ecosystem, which are strong players in Europe's innovative value chain, could help increase the knowledge of the platform. Moreover, innovation procurement opportunities are complex to find. It should be mandatory, in the TED platform and national equivalents, to indicate whether a procurement relates to innovation or not. Startups are also lacking information on the selected winners of public tenders, which will help them shape a better candidacy for the next call.
2. We recommend **increasing the exception threshold in Art 4 to at least 300K€ for all digital technologies**, that is the threshold already applied in security and defense in France. Indeed, the threshold of 134K€ for innovation is too low for tenders on, for instance, nuclear solutions, cleantech, quantum computing and biotech, among others. Another tool to boost startups' participation to public procurement and the amounts available in public procurement is to **increase the mutualisation of call for tenders between different public authorities through joint public procurement**, especially transborder ones that will foster a deeper European identity. Concretely, this creates a single offer to answer for a startup, but which could end up being awarded for multiple buyers, thus streamlining the application process (with only one submission needed) while increasing the amount of the call for tender and diversifying the potential clients for the company.
3. We recommend that public buyers **focus on the solution, rather than the product, when drafting tenders**. Civil servants writing calls for tenders should be better informed of the innovative and technical solutions present in their market, and enable interactions with them ahead of a call for tenders. This could be addressed through a **better pre-tender phase of public procurement and interaction with technical actors from the field**. The focus on the solution could also be implemented through the introduction of the Service Development Call mechanism (see above).
4. In order to allow startups to take part in public procurement processes, we recommend to **shorten and simplify public procurement procedures** by:
    - **Making timeframes to submit and evaluate offers of the same duration**. Evaluating tenders in a shorter timeframe, mirroring the minimum time

[13] European Commission, SME needs analysis in Public procurement (2021)

provided to start-up to submit a full tender, could incentivise startups to participate more in public procurement.

- **Minimising the procedural requirements** for companies:
    - Lowering and expanding the track record criteria to apply for tenders to ensure the eligibility of startups that cannot provide a financial track record or a proven experience in public procurement or in the field of the call for tender.
    - Making financial capacity requirements reasonable and proportionate for startups, since often required bank guarantees and risk indemnity insurances are too high for innovative companies.
- **Applying the "once only principle"** to administrative documents.
- **Organising the tender procedure in two rounds to facilitate the aggregation of documents for startups**. This will allow companies to first put forward a short candidacy, and only later provide a more detailed application, if its solution is pre-selected to fit the intended goal of the public buyer.

5. We advise to **ensure companies aren't disqualified purely on administrative grounds when they technically have the best offer**. It should be mandatory to first evaluate technical offers and only then administrative formalities, and provide companies with a chance to correct any administrative mistake they made in their application.
6. We recommend **mainstreaming advance payments to startups and SMEs** to alleviate financial pressure on these smaller firms.

In addition to commercial procurement, the Commission's proposal for a regulation establishing the European Competitiveness Fund (ECF), mentions:

- "**Pre-commercial procurement**", meaning the procurement of research and development services, but only for the space sector.
- The notion of the **public sector as "anchor customer"**, but again only in relation to space policy.

We see the potential of the digital sector being considered at the same level of the space sector in this sense. We also see the danger of not enough supporting the European digital sector since this could worsen the EU's dependency on foreign technologies.

VIII. <u>Mobilising institutional investment for the European innovation sector</u>

The EU must urgently achieve the Savings and Investment Union to meet the EUR 800 billion investment target set by Mario Draghi more than one year ago to finance Europe's competitiveness.
To this end, we call on the Commission to:

- **Attract more institutional investors**, notably insurance, savings and pension funds, as Limited Partners in European VC Funds.
- **Strengthen the role of the EIB Group**, and especially of the EIF, to better meet companies and investors' needs.
- **Make European stock markets more attractive** for scaleups.

Contrary to the US, institutional investors in Europe are less prevalent and their type and role diverge across Member States. In France, for example, most savings are managed by insurance funds, while in Sweden pension funds are widespread. Moreover, European institutional investors invest only marginally in European venture capital, despite being used to investing in similar companies in the US. European savings constitute therefore a massively underexploited source of private capital to finance innovation and competitiveness in Europe[14].

To unlock this capital, we have long advocated for the **launch of a European VC Initiative**, inspired by national initiatives such as the Tibi initiative in France and the Wachstumsfond in Germany. In March, the Commission indicated that it will tackle this issue through ETCI 2.0, an initiative managed by the EIF. **We call on the Commission and the EIF to consult with stakeholders, notably European VC funds, before launching ETCI 2.0**, to ensure the design and execution of this policy meets European investors' needs and EU stated objectives.

Some of the actions that could fall under ETCI 2.0 or any other EU initiatives to incentive institutional investors to invest in European VC include:

- **Easing the due diligence**: a label should be provided to VCs that have dealt with, or that have passed the European Investment Fund due diligence, as a proof of their robustness. The ongoing revision of the EuVECA label is a positive step in this direction. We call on the Commission to review the label with the feedback of relevant stakeholders and stand ready to facilitate that.
- **Pooling money**: a dedicated fund-of-fund should be created to pool the institutional investors' money and allocate it to VCs, for example improving or expanding the existing AMUF fund by the EIF.
- **Matchmaking** European LPs, VCs and ambitious scale-ups around Europe, to change the cultural approach to risktaking.
- **Communication, fact checking and awareness raising**: European VC is often perceived as less performing than their US counterparts. Data[15], however, shows that European VC is equally if not even more performing. Leveraging its treasure trove of data and its position as a trusted third party, the EIF could play a key role in shifting institutional investors' perception of the VC asset class.

In addition and in the mid-term, we advice to:

- **Develop an EU-Long Term Saving Product**, which could be offered to European households to mobilise the private savings and slow the leak of capital. Today, savings products offered by institutional investors are limited and are not attractive (low returns, sometimes even lower than inflation level). Investing in VC would help improve such returns, notably for less liquid savings products (for example, pension schemes that can only be liquidated after a certain number of years). The existing PEPP has not delivered the expected uptake either. As a first step, we encourage giving a European label to existing national pension products to ensure their portability across Member States.
- **Update capital requirements**, to enable institutional investors to make VC investments compatible with prudential rules. The planned clarification of

[14] France Digitale's study on unlocking investment for competitiveness.
[15] Invest Europe, How Europe's VC and PE industry achieves consistent outperformance

Solvency II requirements is a positive step in this direction but may prove insufficient if not coupled with concrete incentives.

- **Improve citizens' financial literacy** with a cultural and educational change in Europe to ensure more European savings are invested instead of being blocked in current accounts.

All these reforms should be formulated taking into account the outcomes of existing European and national initiatives. Italy, for example, has introduced a pioneering scheme that offers fiscal benefits to pension funds investing a certain percentage of their assets in venture capital. However, despite its recent implementation, the reform has so far failed to produce significant market impact. It is essential to investigate why such fiscal incentives may be insufficient and to identify what additional measures could effectively influence institutional investor behavior. Only through this understanding can truly impactful policies be designed.

Annex 1 - Definitions

Definition of innovative companies

To define **innovative companies**, a broad approach should be followed. In our opinion, the definition of innovative companies should be based on a set of indicators to allow companies to fall within this category without ticking all the boxes, but just by following some of the indicators, for instance two out of four. These indicators could be, for instance:

- **Innovation**: the creation of an innovative product or service based on technology (AI, quantum, digital) or innovative techniques (e.g. new materials, carbon capture, etc.). Innovation has been defined throughout the years in different sets of rules.
    - According to the OECD Oslo Manual, "*an innovation is a new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process)*"[16].
    - Eurostat defines innovation as "*the use of new ideas, products or methods where they have not been used before*"[17].
    - Art. 2 (22) of the Directive 2014/24/EU on public procurement: "'*innovation' means the implementation of a new or significantly improved product, service or process, including but not limited to production, building or construction processes, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations inter alia with the purpose of helping to solve societal challenges or to support the Europe 2020 strategy for smart, sustainable and inclusive growth*"[18].

  The OECD Oslo Manual definition is the most known and used among the ones above. Thus, we encourage the Commission to adopt it too, in order to ensure continuity with already existing and trans-national frameworks and avoid creating new definitions.
- The seek for an **industrialisable business model**, reproducible on a large scale.
- **Hypergrowth**, that can be qualified by turnover, amounts raised, number of employees or even number of users. The OECD, for instance, defines high-growth enterprises "*as firms with at least 10 employees that grow at a yearly rate of 10% or more in either employment or turnover over 3 consecutive years*"[19]. Another example is the criterion taken into consideration for the French Tech Next40 selection: to have achieved at least €100 million in net turnover during the last financial year, and at least 15% annual growth over 3 years.[20]
- A specific **financing model**: because they generate little or no revenue in the short term but need funds to cover human resources and R&D expenses, some innovative companies are financed through fundraising (with venture capital funds or business angels), and only turn to banks once they have proven their

[16] OECD/Eurostat (2018), *Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition*, The Measurement of Scientific, Technological and Innovation Activities, OECD Publishing, Paris, https://doi.org/10.1787/9789264304604-en.

[17] Eurostat, Glossary: Innovation

[18] Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC Text with EEA relevance, https://eur-lex.europa.eu/eli/dir/2014/24/oj/eng

[19] OECD, Helping SMEs scale up

[20] French Tech Next40/120 initiative

profitability. However, it should be noted that not all innovative companies and startups pick the fundraising option. According to France Digitale and EY's 2025 Barometer[21], only 44% of French startups raise funds from business angels and/or VCs, while 34% apply for a bank loan and 27% opt for self-financing (bootstrapping).

If the definition of innovative company is broad, encompassing startups, scaleups and tech mid-cap companies, many advantages can be linked to it, including for instance a **preference in public and private procurement**. Indeed, innovation in procurement should not be a specific procurement procedure, but rather a mindset that buyers must adopt in every procedure. This advantage may work as a proof of concept to validate innovative companies' products and help them to commercialise more, with some clients and good references.

Definition of startups and scaleups

We recommend having a single definition for startups, rather than distinguishing startups from scaleups. Defining startups and scaleups can be very difficult since the line between the two is difficult to draw and especially because creating "sub-categories" of innovative companies and attributing different advantages to them could hamper innovation. Imagine for example the 28th regime being open only to young enterprises or companies with less than a certain number of employees. This would mean that after a certain number of years or when a company has scaled up to a certain number of employees, it would not be allowed to get access to the 28th regime anymore. Now imagine a fairly young company that opened offices in several EU countries within the 28th regime and that has to move back to 27 different societal forms from one day to the other.
The same applies for regulatory sandboxes, employee ownership schemes or access to infrastructure.

Defining startups and scaleups in order to attribute greater advantages to the first ones would have made sense some years ago. Nowadays, the innovation ecosystem needs to grow and be able to meet international competition. Moreover, definitions of SMEs[22] and small mid-caps[23] already exist and can be linked to advantage and simplified pathways. Thus, imposing strict and quantitative criteria, for example of time and size, to define startups and scaleups will not favour innovation in the long term.

France Digitale's advice is to **avoid having multiple definitions and to focus only on the definition of innovative company, to be as broad as possible** in order to favour as many European actors as possible.
If definitions of startups and scaleups are considered to be needed, substantial advantages must be linked to both of them, while significant advantages are assured for all innovative companies too.

[21] France Digitale and EY, Baromètre 2025 sur la performance économique et sociale de l'innovation https://francedigitale.org/publications/barometre-france-digitale-ey-2025

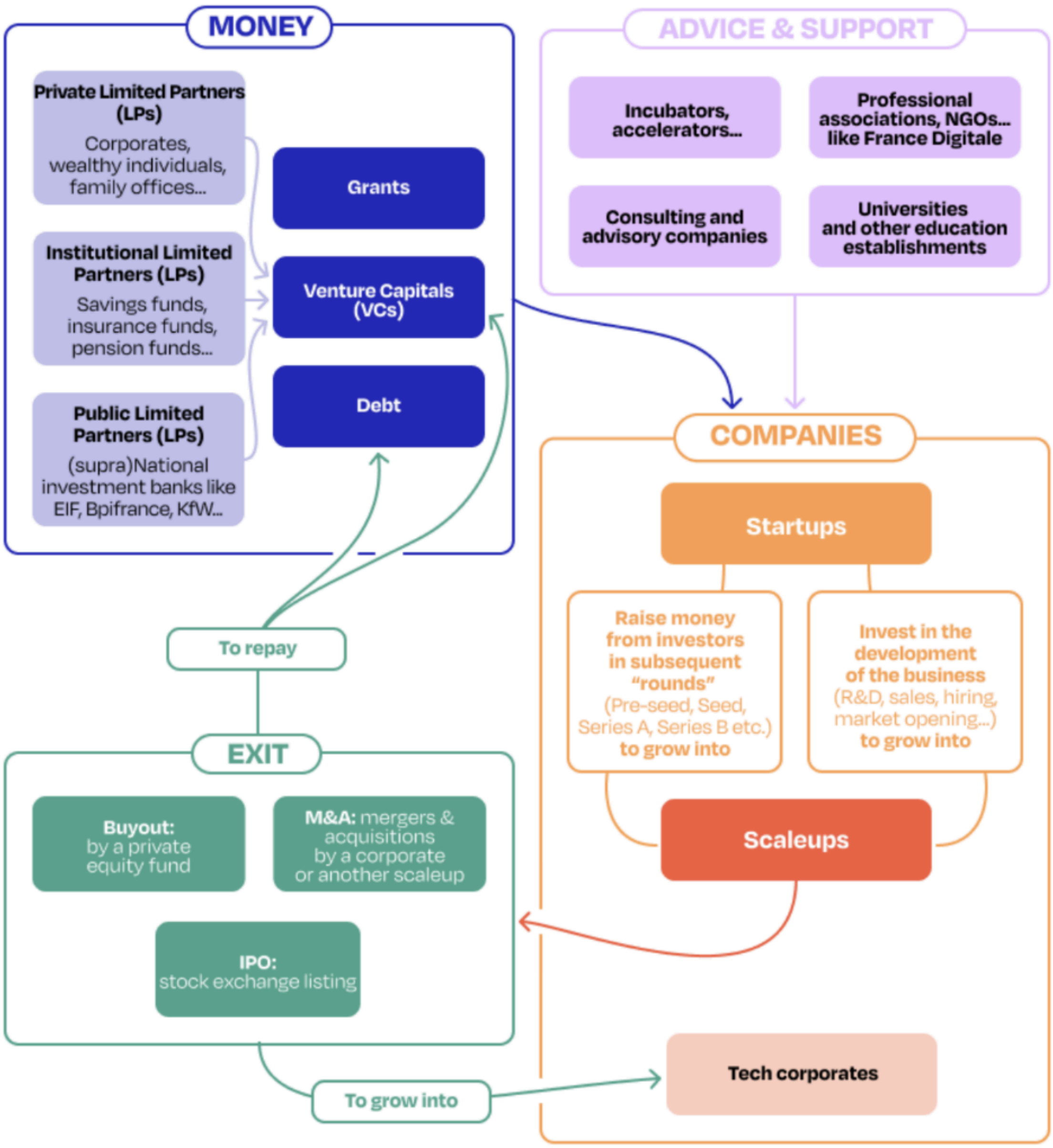
[22] Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C(2003) 1422) http://data.europa.eu/eli/reco/2003/361/oj

[23] Commission Recommendation (EU) 2025/1099 of 21 May 2025 on the definition of small mid-cap enterprises C/2025/3500 http://data.europa.eu/eli/reco/2025/1099/oj

In their initial phase, **startups** need advantages mainly linked to **funding, pre-commercial procurement, R&D and cost of employment**. Different types of startups should be considered: a deeptech startup does not have the same needs of a Software as a Service (SaaS), nor the same growth path, since it needs more R&D, qualified employees and time for the product to be put on the market (often more than 8-10 years).

Scaleups are "mature" startups that have already raised some money from investors or auto-financed themselves and invested in the development of their business to grow (see the scheme below). In their scaleup phase, companies are mainly focused on **developing across countries and markets**.

Yet, it is too difficult and blurry to draw a definitive line between startups and scaleups, as these two phases exist on a continuum. Scaling is at the very core of what defines a startup. While the notion of a "scaleup" can be useful in day-to-day business contexts, it is neither relevant for distinguishing startups from one another nor appropriate for attributing specific benefits.



The French definition of startups : a tool with limits

In France, the currently existing definition is that of a Young Innovative Company (*Jeune Entreprise Innovante*, JEI). While this definition is a functioning and predictable tool, it has some limits that the EU definition of startups should not reproduce.

A JEI is a small or medium-sized enterprise (SME) that invests significantly in research and development (R&D). JEIs benefit from tax and social security exemptions. To have the status of Young Innovative Company, the company must meet the following conditions:

- **Size**: Employ fewer than 250 people and have an annual turnover of less than €50 million or a total balance sheet of less than €43 million.
- **Age**: Must be less than 8 years old to retain JEI status and thus benefit from tax and social exemptions.
- **R&D Investment**: Spend at least 15%-20% of expenses on R&D, excluding certain costs like share disposals and exchange losses.
- **Ownership**: At least 50% of the capital must be held by natural persons, other JEIs, scientific associations, public research institutions, or investment companies.
- **Activity**: Must engage in a new activity, not resulting from a merger, restructuring, expansion, or acquisition of existing activities.

Today around 4500/5000 companies benefit from the JEI status and it costs the French Government around 300 millions EUR per year.

The major advantage linked to the JEI status is the exemption from **employer contributions for R&D employees**. Having seen the cost of labour in France, this is a major advantage, very attractive to recruit researchers. While this definition is advantageous for innovative companies to benefit from tax and social exemptions, it also has some limitations that should be solved as part of an EU definition of startups :

- **Limit in the age of the company**. After 8 years a deeptech company sees its costs doubling or tripling because it's not eligible to the social exemptions anymore. There is a proposal in France to move this limit to 12 years, at least for deeptech startups, but the budget constraints currently do not allow for this reform.
- **Limit in number of employees and revenue figure**. These criteria hamper the growth of the startup since it loses its advantages by growing.
- The **percentage of R&D expenditure** is difficult to maintain every year and to prove it requires a tough administrative work for a startup.
- This status is advantageous for all SMEs that declare R&D, since **there is not a criteria of innovation**/hyper-growth/disruption of the market.

This new EU startup definition will be a great tool to accompany startup's in their growth journey if linked to considerable advantages, namely in funding, reduction of the costs of R&D, pre-commercial procurement and simplification.

The legislator should also ensure that startups can be able to demonstrate they meet these criteria without facing excessive bureaucracy, for instance by applying the once only principle.

On the other hand, when falling outside of these criteria because "too old" or "too big", an innovative company may still be granted advantages to grow and scale (access to infrastructure, European and international expansion, reduction of red tape, etc.).

Finally, an EU dimension could also be added to the startup definition, when the startup's headquarter is located in Europe and a sufficient number of headcounts are based in Europe.