March 2025

EU START-UP AND SCALE-UP STRATEGY

Italy’s Innovation Ecosystem Position

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Co-signatories:

- InnovUp
- Italian Tech Alliance
- Associazione Startup Turismo
- ItaliaFintech

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1. Limited access to finance

Access to finance remains a critical challenge for startups and scaleups across the European Union, hindering their potential for innovation, growth and competitiveness. While ongoing initiatives[1] and in general public funding remain strong, private investment lags behind global competitors like the United States, where venture capital (VC) and pension fund contributions are considerably higher[2]. Additionally, fragmented capital markets and the lack of a well-developed secondary market further reduce liquidity, making it harder for startups to attract long term investments and to successfully scale. This has created a significant gap, often forcing promising startups to relocate to other, better equipped and more accessible markets. To address this, the strategic plan put in place by the EU should focus on strengthening the Capital Markets Union (CMU). While CMU has made progress, the overall private equity market within the EU is still less mature[3] and the flow of capitals remains constrained.

1.1. Investments

By the EU's own agenda, European VC funds do already invest in startups and scaleups. Thus, **the problem may lie in the overall number and size of VC funds** rather than the areas in which these entities are investing.

As a matter of fact, European startups face important barriers due to the **small size of early-stage funding rounds**. European startups receive lower initial investments (w.r.t. more mature markets such as the US or China), which puts them at a disadvantage when competing at the international level at a later stage. Consequently, they struggle also to scale in a competitive manner, attract talent and invest in critical R&D. To address the issue, **public institutions should lead larger investment rounds**, using public funding strategically to de-risk private capital and encourage VCs to deploy more substantial funds at earlier stages.

In terms of access to public funds, efforts could also be made to **increase the flexibility of public policies and grant agreements** by allowing less restrictive conditions for startups[4]. Nevertheless, startups should be able to access private investments from the outset, instead of having to rely solely on government/European support. To do so public grants need to be designed in such a way that **private co-investment is encouraged**, i.e. by making funding contingent on securing a certain amount of private capital. In addition to this, ensuring **mechanisms of shared-risk**, like public guarantees, could also make early stage investments more attractive to private investors.

Additionally, many European startups struggle to attract growth-stage funding because investors lack clear exit opportunities. To address this, as previously introduced, the **secondary markets** in the EU must be developed in a way to provide liquidity for early investors, to allow investors to buy and sell startup shares before an IPO and consequently to increase the attractiveness of the European VC investments.

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[1] Initiatives such as the InvestEU program, the European Competitiveness Fund, Horizon Europe and local startup visa programs.
[2] EU pension funds allocate only 0.02% of their assets to venture capital, limiting available scale-up capital
[3] In 2021, private equity investments in Europe totalled €108 billion, compared to the $329 billion in the US
[4] Regulations such as GDPR, accessibility requirements, PSD, and others pose significant obstacles for a startup starting from scratch, often spending the first six months merely figuring out how to achieve compliance yet still falling short in many areas

A further challenge relates to the **fragmentation** of already existing support programs, not only among Member States but also at the regional level within those States. A preferable approach would be to further centralise the management of funds, accelerators, and other incentives at the European level by establishing a unified governance structure. This would indeed contribute to the enhancement of consistency and efficiency in resource allocation and oversight.

Complementarily, the creation of **pan-European Venture capital funds** should be facilitated, both through a compliance framework and by ensuring that the European Investment Fund incentivises them (currently, it often pushes for mono-national funds instead).

Moreover, increasing the number of calls for proposals launched by the European Commission to **support internationalization** - such as the EIC Accelerator Call - would be highly beneficial. While these programs provide financing at favorable terms - for instance with non-repayable grants, which are more attractive than bank loans or equity fundraising operations -, they often come with challenges. Many require to build complex consortia across multiple countries and institutions or have rigid TRL levels and strings attached to prior grants, all of which does not favour the focus and competitiveness required to accelerate a start up venture. Simplifying access to these programs would enhance their effectiveness and would allow startups to focus on growth and competitiveness rather than navigating bureaucratic hurdles.

1.2 Stock Markets

Premise: to list on a stock market is a challenging game by itself. Firms go public to raise money from institutional investors (e.g. equity funds) that are looking for growth or value companies. As a consequence, these entities tend to put a lot of scrutiny and pressure on management. Usually, a listing is good for companies with very high potential equity value, but underlying visible growth that can lead to at least single digit billion euros of revenue.

Having said this, in order to compete with international stock exchanges, European markets which account for over 200 trading venues (VS 50 in the US) should aim at establishing a **unified stock market framework** that contributes to the reduction of regulatory fragmentation across member states. The implementation of a streamlined, harmonised and simplified approach (including listing requirements and reporting standards) would improve the listing process of startups by decreasing the unnecessary bureaucratic adjustments.

Another related action could be the creation of a **pre-IPO marketplace**, where startups and investors can engage before going public. This could help support a smoother transition towards an IPO for startups while securing a greater visibility for potential investors. Many startups hesitate to list in Europe because of concerns over liquidity, but improving the depth and activity of stock markets through mechanisms like these could help address those fears.

Lastly, reducing **listing costs** or introducing **incentive schemes** for IPOs dedicated to innovative companies could further boost the competitiveness of European stock markets. Programs such as Euronext Growth already offer alternative listing avenues (such as the Professional Segment[5]) with less stringent requirements than regulated markets, making it easier for startups to access growth capital.

1.3 European Innovation Council (EIC)

The EIC Fund serves as the venture investment arm of the European Innovation Council, with a budget of €10bn. It provides patient capital to startups and SMEs, particularly those developing disruptive innovations that may be too risky for private investors.

It must be acknowledged that since its creation, but also by virtue of its improvements during the years, the EIC represents a fundamental and strategic tool for the development of the European innovative ecosystem. Having said this, some EU programs, when compared to those in the US, could be greater in terms of the **size of their funding**: European Innovation Council's (EIC) Pathfinder instrument, has a budget of EUR 250 million for 2024, whereas, US ARPA[6] agencies (a similar initiative) have considerably higher value (DARPA[7]: $4.1 billion; ARPA-H[8]: $1.5 billion; ARPA-E[9]: $0.5 billion).

Beyond the amount of funding, the quality of radical innovation which reaches the maturity stages above TRL 5-6 is limited, leading to a **lack of high-quality deal flow** for EIC Accelerator and similar funding and investment initiatives. To increase this quality the following activity should be considered:

1. **Encouraging early partnerships**: Establish early collaborations, i.e. already at Pathfinder and Transition level, between research teams and innovation actors (such as Business Angels, Accelerators, Venture Builders).

Moreover, there are issues related to **complexity and to lack of focus specificity** (the available resources are split across too many fields, ultimately lacking focus and missing to address some top EU priorities that may be crucial for the development of new technologies). Simplifying both the requirements to access funding and the overall capital allocation process is therefore essential to ensuring that the EU meets its innovation and development goals. In this sense, to further strengthen the ecosystem in which the EIC operates, additional measures should be considered, for instance:

1. **Encouraging partnerships:** Establish collaborations with major fund managers and financial institutions for strategic co-investments.
2. **Highlighting the impact of startups/scale-ups:** Publish detailed reports on successful exits and the financial returns generated by EIC-backed startups would enhance transparency and demonstrate the program's effectiveness.

[5] born in 2020, is dedicated to SMEs that wish to access markets with a phased approach; to start-ups and scale-ups that have been in commercialisation for less than a year; this segment contemplates the possibility of Just Listing operations and offering structures that have lower complexity characteristics
[6] Advanced Research Projects Agency (ARPA), the agency was created on February 7, 1958, by President Dwight D. Eisenhower, in response to the Soviet launching of Sputnik 1 in 1957
[7] Defense Advanced Research Projects Agency (DARPA) is a research and development agency of the United States Department of Defense responsible for the development of emerging technologies for use by the military
[8] The Advanced Research Projects Agency for Health (ARPA-H) is a research funding agency that supports transformative biomedical and health breakthroughs – ranging from the molecular to the societal – to provide health solutions for all
[9]Advanced Research Projects Agency-Energy (ARPA-E) funds and directs the research and development of advanced energy technologies

3. **Reducing bureaucracy for opening bank accounts:** Engage with the European Central Bank to reduce bureaucratic hurdles for scale-ups opening foreign branches that also require bank accounts. Compliance checks, particularly for verifying the Beneficial Owner, often result in significant delays. An alternative system should be considered to facilitate bank account openings for startups and scale-ups.

1.4 Institutional investors

Venture capital is perceived as a high-risk, low-return asset class by most European institutional investors, discouraging them from allocating significant resources to startups[10]. To address this, institutional investors need to be correctly incentivised in terms of regulatory adjustments that allow for a more **risk-return profile of VC investments**. Such incentives could include:

- **Tax incentives:** Propose tax benefits for institutional investors funding innovative venture capital funds. For example, a system of tax deductions or exemptions on capital gains from investments in startups and emerging technologies could encourage pension funds and insurance companies to participate.
    - In the framework of the new "Scale-Up Act", the Italian government allows pension funds and insurance funds to keep their exemption from capital gain taxes on qualified investments, provided that a share of these investments is directed towards VC funds.
    - Tax incentive schemes should be developed also in favour of IP protection and high-risk R&D work. A relevant example would be Belgium's approach, which includes innovation income deductions, R&D salaries tax exemptions, R&D and patent investment deductions).
    - Another example to benchmark could be the BEIS initiatives conducted in the UK around 2018-2020, which stimulated many public-private investments in areas of innovation. A direct example would be the disease interception strategy, which led to several competitive initiatives within UKBB, Genomics England, OurFuture Health.

  Exploring the sustainability and assessing the replicability of such models across the EU, alongside with the identification of potential barriers to implementations, could be valuable steps forward.
- **Favorable regulation / relaxation of capital gain requirements:** Work with regulatory bodies to create a framework that allows these investors to allocate part of their portfolios to venture capital while remaining compliant with risk and liquidity regulations.
- **Government-backed guarantees** for insurances or pension fund investments in startups.

These incentives should be coupled with moral suasion to institutional investors' advisors and to their investment management committees[11].

Just as for private investment and following the same rationale, institutional investment could also benefit from public-private co-investment models and from a stronger secondary market.

[10] European pension funds participation in the EU startup ecosystem is limited: In 2023, the commitment was as such: "EUR 6.5 billion (11 %) of new funds raised by PE funds and only EUR 0.6 billion (5 %) of new funds raised by VC funds". This represents 0.4 % and 0.02 % of pension funds' total assets

[11] The majority of which uses Cambridge Associates or similar to make their own asset allocation, and they usually avoid allocating investments in local underdeveloped VC markets

2. Access to markets, regulatory framework and fragmentation

The European Union accounts for one of the largest markets in the world with over 450 million citizens. Despite its substantial dimensions, when compared to other actors such as the US or China, the European market still struggles to this day to systematically produce Tech Champions. Such struggle is often attributed to the significant challenges faced by the EU's startup ecosystem, particularly in accessing foreign markets and, more critically, in navigating its fragmented 27 regulatory frameworks. The lack of harmonisation across member states creates inefficiencies[12], making it difficult for young and innovative companies to expand beyond their domestic market and often leads to a preference for larger markets outside of the EU.

To address these issues, the EU must further promote the implementation of the **28th regime**, alongside the further development of regulatory sandboxes and the improvement of public procurement[13] processes for startups. Simplifying regulations, standardising contract templates, and ensuring startups benefit from private and government spending will be key to fostering innovation and market access.

2.1 Startup expansion (within the EU)

Despite the Single Market, startups face regulatory, financial, and structural barriers that complicate scaling. Key challenges include:

- **Complex & Unharmonised Regulations**: The EU's fragmented regulatory environment forces startups to navigate different legal, tax, and administrative frameworks in each country. Unlike the U.S., where startups scale within a unified market, EU-based companies must comply with 27 different jurisdictions, increasing costs and administrative burdens.
  - **Difference in market maturity**: Startup ecosystems across the EU also vary widely in funding availability and digital infrastructure. Some markets offer strong investor networks, while others have limited capital and rigid policies, making expansion unpredictable and costly.
  - **Regional Policies for startups**: Regional and local policies play a crucial role in supporting startups. In fact, public support measures for start-ups are typically implemented in specific geographical contexts and are often designed and executed by local and regional authorities. Given this, aligning startup policies with EU cohesion policy and regional Smart Specialization Strategies (S3) is necessary to ensure consistency, maximize impact, and avoid duplication of efforts.
- **Lack of Document Standardisation**: Startups face difficulties in cross-border operations due to the absence of standardised legal and compliance documents. Each Member State requires different contracts, reporting standards, and tax filings, making expansion inefficient and resource-intensive. Standard contract templates and a simplified EU rulebook would help alleviate these issues.
  - **Need for a 'Think Small First' Approach**: Current regulatory frameworks do not adequately consider the needs of startups and SMEs. Implementing an SME test when designing policies

[12] e.g. It can take between 3 months and 3 years to open another European market, depending on the field of activity. Multiply it by 27, and it becomes clear that it could take decades for a European startup to operate in all Member States. (*Non-paper: How can a 28th regime company status help young and innovative companies to scale in Europe? - France Digitale, 2024*)

[13] Public procurement, which accounts for approximately 14% of the EU's GDP, remains underutilised as a tool to foster innovation and support emerging businesses. If streamlined, it could provide startups with early-stage revenue and credibility, enabling them to scale more effectively.

would ensure that new regulations do not disproportionately impact small businesses, making the startup ecosystem more inclusive and competitive.

- **Protectionism & Anti-Competition Policies**: Many Member States maintain regulations that favor established corporations, limiting market access for new entrants. Protectionist policies create barriers to competition, reducing innovation and discouraging startup growth across the EU.

- **Digital regulation complexity**: data driven businesses face significant uncertainties and confusion due to inconsistent GDPR implementations across member states and due to overlapping requirements between GDPR, the Digital Services Act (DSA), the Digital Markets Act (DMA) and the AI Act. More specifically:
    - the introduction of the AI Act also raises concerns as its requirements may conflict with existing GDPR principles for data processing
    - the proposed 'Digital Fairness Act' risks creating overlapping requirements and increased compliance complexity for startups, potentially limiting their ability to test markets, validate products, and scale efficiently across the EU, while adding costs and uncertainty during critical growth phases
    - inconsistent incident reporting timelines under NIS2, GDPR, and sector-specific regulations, make compliance a resource-intensive task for startups with small teams
    - stricter limitations, as currently discussed, on targeted online advertising (an essential tool for startups to build brand recognition and acquire customers) could disproportionately harm small businesses that rely on cost-effective digital marketing
    - the Data Act's mandates for interoperability standards may unintentionally limit startups' ability to innovate, increasing costs and introducing security and performance concerns for cloud-based services

  To foster a thriving digital ecosystem, the EU must prioritise regulatory clarity, ensure GDPR enforcement is harmonised across member states, and maintain open access to digital tools and services.

- **Access to technologies and high-quality data**: the EU startups need access to best technologies and broadest ranges of high-quality data to be able to scale their businesses across Europe and globally[14]. The EU should avoid unreasonably protectionist policies as regards access to cloud and AI for start-ups, particularly those that limit European companies' ability to grow in key sectors like healthcare, education or transportation[15].
- **Infrastructure for Market Integration**: Prioritise the expansion of digital and physical infrastructures to overcome market fragmentation, ensure equal access opportunities, and simplify procedures and bureaucracy.
    - for instance, accelerators, incubators, and local VC funds should be incentivised to include a proportion of non-national startups in their portfolios. Instead of applying rigid quotas, the EU should strengthen its existing policies that facilitate and reward cross-border investments.

[14] 2nd most cited factor in scaling, after access to finance in recent Strand Partners study
[15] most cited public services EU citizens want to see revolutionised by adoption of new technologies

2.2 28th regime

The 28th regime should be understood as a **EU-wide uniform legal status** specifically designated to enable young and innovative companies to operate seamlessly across the European Single Market from the outset, without encountering the barriers posed by 27 fragmented national legislations of the Member States. Its aim would be to establish a **harmonised legal framework** that allows European Startups to scale efficiently, to secure investments more easily and to compete globally.

The 28th Regime should be established through a directly applicable **regulation** rather than a directive, in line with the EU's Better Regulation guidelines[16], to prevent discrepancies in national transpositions and ensure legal certainty across the bloc. By minimising national discretions, the 28th Regime would ensure a **truly unified framework** and would also serve as a **European "*brand*" for innovation**, enhancing the credibility and attractiveness of businesses adopting this status.

To be truly effective, the 28th Regime should include the following characteristics:

- **Constitution and administration processes should be simplified, centralised and fully digital**: innovative companies should be incorporated directly under a European framework, without the need to first set up a national entity. The minimum share capital should be as low as €1, ensuring accessibility for early-stage startups and removing unnecessary financial barriers. Unlike existing European legal structures, such as the Societas Europaea (SE), the 28th Regime should allow companies to be created from scratch (ex nihilo), avoiding mandatory cross-border operations or high capital requirements.

  Moreover, the incorporation process should also be entirely online, utilising standardised procedures available across all EU countries, preferably in English. Legal documentation should also be managed digitally, with contract signing, stock allocations, and governance decisions facilitated through e-signatures and digital identity systems (such as EIDAS or e-Residency). Additionally, a centralised EU-wide business registry should be introduced to enhance transparency and simplify compliance requirements for cross-border operations.

- **Stock options and investment frameworks should be harmonised** (*as illustrated in chapter 1.1 Investments and 1.2 Stock Markets*)

In addition to these characteristics, the following supporting measures would be crucial for further harmonisation in EU legislation and the successful adoption of the 28th Regime:

- Labor laws and initiatives for talent attraction should be streamlined by uniforming minimum labour standards and by fasting recruitment procedures for international talent, similar to the 'French Tech Visa' model
- Exemptions and favourable taxation systems should be ensured
- Access to public procurement should be improved (*better illustrated in chapter 2.8 Public Procurement*)

[16] Better regulation: guidelines and toolbox

- Exemptions from restrictive State aid rules should be introduced, for instance with exemptions for innovative start-ups operating at a loss during the growth phase, aligning EU rules with innovative business models
- Intellectual Property (IP) protection should be harmonised providing a single EU-wide patent and copyright system, a harmonised dispute resolution process, and clear, fair licensing terms for essential technologies
- A "once-only" principle should be promoted where documentation/certification filed in one Member State is automatically recognised across the EU in order to reduce issues related to product labeling[17], EPR schemes[18], VAT compliance[19], Cybersecurity Certification[20], Customs[21], Data flows[22] or environmental reporting[23].

The benefits that European innovative business could have from the 28th regime are wide-ranging. By reducing legal fragmentation and compliance burdens, startups could redirect resources towards recruiting top talent, funding R&D, and increasing global competitiveness. The regime would also simplify cross-border investments, making it easier for venture capitalists and business angels to invest across the EU without facing inconsistent national regulations and costly legal obstacles.

Additionally, a 28th regime would enhance Europe's ability to create global tech champions, reducing reliance on non-EU markets for expansion. With a standardised legal and tax framework, startups would experience fewer regulatory hurdles, fostering a more dynamic and competitive innovation ecosystem within the EU.

2.3 Regulatory sandboxes

Startups and scaleups working with institutional customers, such as the European Commission and EU agencies, can benefit from establishing dedicated teams specialised in navigating regulatory sandboxes and engaging in policy discussions to improve them. For companies where institutional clients are a key part of the business, internal expertise in regulatory compliance can provide a competitive advantage. However, for others, leveraging specialised consultancy firms may be more effective, as in-house solutions can be time-consuming and may lack the necessary expertise. A strategic approach—either through internal capabilities or external advisors—can help companies maximise the benefits of regulatory sandboxes in the EU.

[17] Each member state requires different language versions and content requirements which creates a burden for product-driven startups
[18] Product-driven startups must register separately with each country's recycling system, facing: Different product categorisation requirements, Varying data submission formats, Multiple service fees, Local language registration forms
[19] Different rates, reporting requirements, and registration procedures across member states
[20] Member States have national certification frameworks, requiring companies to obtain multiple certifications; the European Cybersecurity Certification Framework introduced through the Cybersecurity Act so far delivered only one EU-wide certification scheme (EUCC)
[21] Complexity of Harmonised System (HS) classification, tariff and origin rules and lack of harmonisation and coordination amongst customs authorities, insufficient levels of data sharing, and optionality of the Import One Stop Shop (IOSS). Results in large variations in the time taken to import goods from the EU to the single market or export from EU countries to third countries (e.g., the average duration of an inspection is 0.73 days in France and 0.89 days in the Netherlands, compared to 3.34 days in Spain and 2.41 days in Italy). Ensure a uniform application of customs law and processes in EU member states
[22] Restrictions on the free-flow of data between Member States (counter to the objectives of the Regulation on the Free-Flow of Non-personal Data) means that businesses face additional costs and complicates access to new technologies. EU Regulation 2018/1807 should be consistently enforced (specifically by member states)
[23] across all economic sectors, prevent the uncoordinated and non-standardised development of methodological environmental impact measurement systems ("carbon scores") and related auditing & reporting obligations

2.4 Corporate involvement

Over the years the digital revolution has fundamentally reshaped the competitive landscape, empowering customers and more relevantly leveling the playing field in which companies operate regardless of their sizes. Small, agile startups now pose significant challenges to large incumbents, demanding a new approach to competition. Collaboration between these two entities is hence becoming more crucial for their survival and growth. However, such collaboration requires overcoming significant hurdles, particularly with respect to the clash of cultures: corporates must embrace a more flexible and lean approach to effectively engage with startups.

Lean procurement is essential. Traditional, cumbersome processes designed for large vendors often stifle startup participation. Streamlining contracts, accelerating payment terms, and establishing dedicated "startup procurement" teams can significantly improve engagement. This requires a cultural shift within corporations, embracing speed and adaptability in procurement.

Corporate venturing offers various avenues for collaboration such as "Calls for startups" and "proof-of-concept" (POC) projects that allow corporates to explore innovative solutions and assess startup potential. However, clear evaluation criteria, transparent communication, and timely feedback are crucial for successful collaborations. Corporates must be willing to experiment and iterate alongside startups, adopting a more agile approach to project management.

Corporate venture capital (CVC) arms provide funding and strategic guidance to promising startups, while offering corporates a window into emerging technologies. However, CVCs must operate with a degree of autonomy, allowing startups to maintain their agility and independence. A purely strategic approach, focused solely on corporate needs, can stifle innovation.

Mergers and acquisitions (M&A) of startups offer corporates a direct path to acquiring disruptive technologies and talent. However, successful integration requires careful planning and cultural sensitivity. Preserving the startup's innovative culture and fostering open communication are essential for maximising the value of the acquisition. In this regard, additional efforts should also be made in terms of legal certainty to overcome multiple overlapping regulatory reviews for M&A across jurisdictions[24]. Small businesses seeking acquisition cannot afford ambiguity on whether a transaction is subject to regulatory review, as inconsistent guidance can create unnecessary delays and barriers to growth.

Finally, **venture building**, where corporates behave like startups by launching new ventures, can drive internal innovation. However, this requires a significant cultural shift, empowering intrapreneurs, embracing risk-taking, and fostering a lean, startup-like environment within the corporate structure.

Improving these collaborations hinges on cultural change within the corporate world. Embracing a more flexible, lean, and agile mindset is crucial. Open communication, mutual trust, and a willingness to experiment are essential for bridging the cultural gap and unlocking the full potential of startup-corporate partnerships. By adapting their internal structures and processes, corporations can effectively leverage the dynamism of startups to navigate the evolving digital landscape.

[24] For instance, the ECJ's Illumina/Grail judgment has provided much-needed clarity for businesses pursuing mergers. However, the EC's review of sub-threshold transactions has raised concerns, as it appears to contradict the principle of legal certainty enshrined in the EU Merger Regulation (EUMR)

In this sense, government support - also at the European level - can play a vital role in enabling this cultural and entrepreneurial transformation: **Tax incentives** for corporations investing in or partnering with startups can encourage greater engagement; **Grants and subsidies** specifically targeted at collaborative projects can reduce the financial risk for both parties; **Changes in regulations** to simplify processes related to joint ventures, M&A, and other forms of collaboration can reduce bureaucratic hurdles.

Furthermore, governments can facilitate **networking and matchmaking** between startups and corporates through dedicated platforms and programs; creating a supportive legal framework for intellectual property sharing and ownership in collaborative projects is also essential.

In addition to this, to incentivise corporate-startup collaborations, the introduction of a "**certificate of innovation**" should be considered within corporate financial reporting (similar to sustainability balance sheets) to evaluate and to give recognition to corporate investments in startups within their sector. Instead of being imposed as an obligation, such certification should be incentive-driven at the European level to ensure the motivation of businesses to concretely contribute to the innovation ecosystem without interfering in their investment strategies.

2.5 Public procurement

With over €2.4 trillion spent annually - equivalent to 14% of the EU's GDP - on public contracts, **procurement policies represent a critical policy tool** that directly impacts the competitiveness of European businesses, the efficiency of public administration, and above all the ability of the EU to achieve strategic priorities such digital transformation, the Green Deal, and economic resilience.

However, current procurement frameworks remain complex, outdated[25], fragmented, and disproportionately challenging for startups, scaleups and innovative SMEs. Administrative burdens, the previously mentioned lack of harmonisation across the 27 Member States accompanied by the slow adoption of digital tools, hinder broader participation in public tenders and limit the potential that the Single Market could have as an engine for innovation and economic competitiveness.

Increasing the participation of startups and scaleups in public procurement requires **addressing structural barriers** that limit their access. Despite their potential to drive innovation and efficiency, these companies often face complex qualification processes, limited awareness of opportunities, and challenges in navigating public sector requirements. To create a more inclusive and dynamic procurement system, several key actions can be taken, such as:

- **Direct more public resources to innovation** by allocating dedicated funding to support research and development in high-tech sectors, particularly those with long innovation cycles and high investment risks sectors (such as chemistry, biotechnology, materials science, and innovative agriculture), to encourage greater startup participation in public projects.
  More concretely, it would be desirable to reserve a fixed quota of public procurement contracts for startups and innovative SMEs by incorporating innovation as a key evaluation factor.

[25] No fundamental improvement of start-up/SME participation in procurement has been made since 2014 reforms (see ECA report https://www.eca.europa.eu/en/publications/SR-2023-28)

- **Simplifying the qualification procedures** by reducing bureaucratic hurdles by streamlining documentation requirements, introducing standardised guidelines, and allowing fast-track supplier registration for startups. Exempting them from certain financial obligations (such as pre-qualification payments) during the bidding process can also lower entry barriers.
- **Harmonising public procurement processes** by standardising administrative and legal requirements such as company record requirements, financial guarantees or insurance, localisation requirements, language and translation policies and product criteria, to make them consistent across the Union and attainable for startups.
- **Enhancing PA's capacity** by developing targeted EU-wide training programs to public officials on evaluating and integrating innovative solutions and by establishing structured dialogue spaces to foster collaboration between public institutions and startups, ensuring a better mutual understanding of needs and capabilities.
- **Improving digital processes** by accelerating the digital transformation of public procurement systems, making them more accessible and efficient for startups (this includes reducing delays and improving transparency in procurement procedures).
- **Facilitating access and visibility of PP opportunities** by developing a centralised, user-friendly platform that aggregates national and European procurement and funding opportunities, with clear sections dedicated to startups and innovative SMEs.

3. Limited access to talent

Compared globally, the EU is a major hub of STEM talent (Science, Technology, Engineering, Mathematics), with around 19 million professionals, accounting for approximately 5.5% of its labour market. Despite this, Europe's startup ecosystem still faces talent shortages, including a severe lack of digital skills, and it is characterised by limited mobility for international talents.

To address these challenges effectively it is clear that talent attraction and retention need to be incentivised. This could be achieved through initiatives such as stock option reforms or by strengthening the industry-university collaboration. In addition to this, the EU must also improve its digital education programs and streamline harmonisation of startup visas across Member States. By implementing these measures, the EU could significantly enhance its competitiveness and secure a sustainable pipeline of startup talent.

3.1 Skills shortage

The difficulties in recruiting highly skills and experienced professionals could be explained by two factors:

a) increased demand for these profiles across Europe, fueled by new contracts and programs under national recovery plans, leading to intense competition for top talent, and
b) a limited pool of available professionals, as many skilled professionals opt to move to the Middle East or the USA, attracted by significantly higher salaries.

Importing talent from outside the EU remains a significant challenge also due to complex visa procedures and fragmented work permit systems. Current startup visa programs are limited[26], making Europe a less attractive destination for global talent[27].

To enhance the process of accessing talent, the creation and/or development of the following instruments can help reduce the mismatch between the demand and supply of digital labor:

- **Recruitment platform for startups and scaleups**: To improve talent availability at the European level, a specialised recruitment platform for startups and scale-ups should be developed (following for instance the model of LinkedIn). Hiring for startups and scale-ups presents unique challenges that are not common in traditional sectors or well-established businesses:
    - Working in these highly innovative and dynamic environments requires not only technical skills but also soft skills such as adaptability to fast-changing and fluid roles. Candidates with prior experience in these settings can significantly streamline the hiring process.
    - Early-stage startups often struggle with brand recognition, making it harder to attract talent, especially across different countries.
    - Registration on a dedicated European platform could serve as a certification of credibility, making it easier for startups to attract talent, particularly in innovative sectors.
- **Startup Visas**: following the best successful practices developed by countries like Estonia (e-residency and Startup Visa) and France (French Tech Visa) that are leading in simplifying visa procedures.

[26] Non-EU talent faces an average visa processing time exceeding six months
[27] According to the European Commission, only 14 out of 27 member states offer tailored startup visas, with highly variable requirements and success rates

Nevertheless, these models remain country-specific, highlighting the need for a shared European framework.

- **European-Level Incentives for Returning Talent**: Inspired by Italy's successful tax incentives for returning citizens[28], a broader European initiative could encourage skilled professionals working abroad to return, helping mitigate the talent drain to other regions offering higher salaries.
- **Enhancing Skills for the Future**: Prioritise the urgent improvement of skills among the general population, with a particular focus on STEM university students and future generations, in key areas such as entrepreneurship, business management, finance, and digital skills.
  Moreover, beyond technical skills, fostering an entrepreneurial mindset from an early age is crucial to overcoming cultural barriers to risk-taking. The following measures should be considered:
    - Promote cross-boarder research collaboration[29]
    - develop a mandatory entrepreneurship lab for high schools equating it to a basic subject such as civic education.
    - strengthen university hubs (with a particular focus on underdeveloped regions) by involving big tech with incentives to open local offices
    - increase European scholarships and funding for university entrepreneurial projects
    - supplement the EU Blue Card program with facilitated pathways for STEM talent
- **Addressing Non-Competitive Salaries**: Establish a dedicated EU-wide workstream to accelerate talent development, enhance mobility, and improve incentive competitiveness, starting from the academic level and aligning with scientific and intellectual property productivity.

3.2 Employee stock options

Employee Stock Options (ESOs) are a critical tool used by startups to attract and retain talent, especially in competitive sectors such as technology and deep tech. These tools could represent a key factor in enhancing their competitiveness with higher salaries offered by large international corporations. However, the complex regulatory and financial framework that characterise the European framework, produce a low general understanding of how ESOs work and how much they represent an actual opportunity. The challenge lies in their net present value being null for the majority of startups, unless these are listed and can sell their stocks after the vesting period.

Despite that, ESOs have proven to work in improving talent retention as employees with stock options tend to be more engaged, directly profiting from the company's growth.

To maintain the effectiveness of stock options as a retention and recruitment instrument, these incentives should be extended to larger companies. Alternatively, the eligibility criteria for obtaining Innovative SME status should be reviewed to include bigger companies that make significant investments in R&D. By expanding access to these incentives, more businesses could leverage stock options to attract top-tier talent and foster long-term employee engagement.

[28] Tax incentives offered to Italian citizens living and working abroad who returned for full-time employment
[29] Only 13% of patents involve companies from two different EU countries.

3.3. Gender Gap

To continue the process of **closing the Gender and Generational Gap** it is crucial to move beyond superficial initiatives and implement impactful measures. In this sense, discussions on addressing gender and generational disparities should be continued and incentivised, with a focus on upskilling and talent competitiveness as key indicators, while also recognising the need for a deeper cultural shift. Concretely, inclusive educational programs should be strengthened, starting from early education in primary schools, to promote equality and cultural inclusion from a young age. Additionally, investments in infrastructure and cultural shifts are also essential to create a more equitable and competitive environment for all.

About the co-signatories:

InnovUp

InnovUp - formerly Italia Startup - is the non-profit and superpartes association that represents and unites the Italian innovation ecosystem: startups, scaleups, innovative SMEs, innovation centers, incubators, accelerators, science and technology parks, professional firms, consulting companies and corporates. InnovUp works to strengthen and foster the Italian innovative entrepreneurship system through 3 main areas of activity: Advocacy, Networking, Knowledge.
InnovUp is member of AFS (Allied for Startups), ESNA (European Startup Nation Alliance), IASP (International Association of Science Parks and Areas of Innovation), ESN (European Startup Network), EBN (European Business and Innovation Centre Network), EBAN (European Business Angels Network).

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Italian Tech Alliance

Italian Tech Alliance - formerly VC Hub Italia - is the Italian association of venture capital, innovation investors (business angels, family offices and corporates) and Italian innovative startups and SMEs. It was founded in 2019 by the managers of the leading venture capital funds active in Italy and today has over 60 investor members, more than 140 of Italy's leading startups and innovative companies, and 26 supporting members. Italian Tech Alliance investors manage assets of about 1.3 billion euros and have invested in more than 250 Italian startups with high growth potential and strong technological content. One of the association's goals is to ensure that innovative companies can make a significant contribution to the growth of our country, including by raising Italian public awareness of innovation and development issues.

Contact: info@italaintechalliance.com

Associazione Startup Turismo

Associazione Startup Turismo was founded in 2013 and is the only entity representing travel startups in Italy. The association brings together more than 130 tourism-focused startups at various stages of development, has 13 Regional Representatives, and is continuously growing. The mission of the Association is to create synergies between the old and new economies by building a network among startup founders, major players in the travel industry, investors, and institutions to foster collaborations and partnerships. Every year, Startup Turismo conducts research both nationally and internationally to highlight the actual state of travel startups and their needs.

Contact: info@startup-turismo.it

ItaliaFintech

ItaliaFintech is the association of the most innovative fintech companies, both national and international. Established in 2018, the association aims to promote awareness and adoption of fintech solutions by consumers, households and businesses.The association is a point of reference for institutions and the regulator and in 2020 co-founded EDFA - European Digital Finance Association, the European association for fintech, which brings together fintech associations from the main European countries.

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