FRANCE INVEST
Investors for growth

12 March 2025

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France Invest's contribution to the Commission's call for evidence on an EU startup and scaleup strategy

France Invest would like to thank the Commission for the opportunity to contribute to its call for evidence on a European startup and scaleup strategy.

Our members play a crucial role in supporting the development of startups (early-stage companies) and scaleups (high-growth companies expanding their operations).

- More specifically, our venture capital (VC) members cover the financing of start-ups from their inception (seed capital) through to more advanced stages of development (late stage). They support these businesses notably through financial support, strategic guidance and networking and market access, talent acquisition and operational support, exit planning (IPO, mergers, acquisitions…).
- As for them, our growth and private equity (PE) members typically invest in more mature, revenue-generating companies, including scaleups. More precisely, growth, which straddles the border between venture and development capital, encompasses investment in innovative, high-growth companies that have already been supported by VC funds in the past, generally with significant and recurring sales, and whose financing needs are substantial. Our members provide these businesses with growth capital, operational improvements, scaling through acquisitions, expertise and governance as well as exit strategies.

At the end of 2023, among our 440 asset management company members, 189 were active in the venture & growth segment. **At the end of 2022, 3,663 start-ups and scale-ups were being supported by French venture and growth players, including 2,619 French companies employing nearly 122,000 people**.

The evolution of the French venture and growth segment since 2016 has been spectacular: in just a few years, it has become a powerful, diversified, dense and attractive tool for supporting a strong and innovative French entrepreneurial ecosystem (the number of VC/growth funds managed by our members increased from 61 in 2013 to 111 in 2023). However, it is still lagging behind on the largest deals, accounting for less than **30% of financing provided to French start-ups and scale-ups since 2016**.

Between 2016 and 2023, our venture & growth members raised EUR 32.2 bn to finance tech and biotech companies in the coming years and invested an average EUR 22.5 bn in 1018 transactions on a yearly basis.

Our 2024 publication on "The attractiveness and impact of the French venture & growth ecosystem"[1] shows that, against the backdrop of a more complex financing environment for start-ups and scale-ups since 2022, **fund-raising and investments contracted in 2023 - albeit remaining at historically high levels in terms of both amounts and number of deals.** The downward trend was particularly marked for large-scale fundraising and deals, especially in the growth segment. Venture activity, however, was showing a certain resilience, with a number of rounds or closings under €100 million, supported by investment from entrepreneurs and family offices.

[1] https://www.franceinvest.eu/activite-du-venture-growth-francais-en-2023/

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1. Do you agree that startups and/or scaleups face the hurdles identified in this document (access to finance, regulatory and bureaucratic burdens and fragmentation, access to markets, access to talent, and access to infrastructure, knowledge and services)?

Yes, we agree that startups and/or scaleups face the different hurdles identified by the Commission in its call for evidence: access to finance, regulatory and bureaucratic burdens and fragmentation, access to markets, access to talent, and access to infrastructure, knowledge and services.

In particular:
- **We fully support the Commission's goal of ensuring that EU startups can access the capital they need to scale up in the EU.**
- We generally welcome initiatives aimed at simplifying the regulatory framework applicable to small companies and placing the EU at the forefront of research and innovation globally, especially as regards delivering disruptive technologies;
- We support the Commission's aim to help startups and scaleups attract and retain the talent they need.

2. Are there any additional hurdles faced by startups and/or scaleups?

In addition to the hurdles identified by the Commission, we would like to highlight **the discriminatory treatment of startups and scaleups backed by VC/PE which prevents them from also benefitting from public support.**

Under EU law, if an enterprise has access to additional resources, it may not qualify for SME status. For instance, in order to only take into account its own workforce, turnover and balance sheet (i.e. not to include data from other enterprises), an enterprise must be considered as autonomous. In particular, according to the Recommendation, enterprises where a venture capital company owns a share exceeding 50% are not considered as autonomous. These enterprises might therefore not be considered as SMEs, even if individually they meet the staff headcount and financial thresholds.

Not obtaining the SME status has serious impacts for companies, including:
- Eligibility to apply for funding support in the context of European programmes applicable to SMEs or public national institutions/programmes aimed at SMEs;
- Social disadvantage compared to similar companies having the SME status, which can benefit from lower social charges. In particular, this creates a significant disadvantage when recruiting key talents in startups;
- Companies which do not qualify as SMEs are also placed at a competitive disadvantage as they cannot benefit from fiscal advantages granted to SMEs;
- Ability to further finance the company through venture capital or capital risk companies when the SME status is a pre-requisite;
- Ability for capital risk funds to deploy financing.

Conditions to access State aid are particularly important for EU start-ups and scale-ups. **Attention should be paid to the discriminatory regulatory treatment of start-ups and scale-ups which are backed by venture capital in order to ensure that they can benefit from the same advantages as other SMEs with regards to public subsidies**. Such discriminatory treatment should urgently be put an end, as explained below.

3. What actions do you think the EU and/or its Member States should take to address these hurdles?

Unlocking the full potential of the EU venture capital, private equity, infrastructure and private debt (VC/PE)

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sector is essential for the mobilization of much-needed private and patient capital into our startups and scaleups. Indeed, VC/PE can further propel innovation and contribute to overall prosperity by providing funding and expertise to French and European businesses to help them navigate transformations at every stage of their development. In addition, VC/PE actors help small and medium-sized businesses grow, by providing them with expertise.

We recommend the EU and/or Member States take the following actions:

1. **Revise the European definition of SMEs and adopt a more flexible approach for SMEs whose securities are held by VC/PE vehicles**

    a. The current definition of SMEs refers to venture capital *companies*. As you may know, PE and VC AIFs may take the legal form not only of companies but also mutual funds. It means that a SME whose capital is held by a PE and VC *mutual fund* cannot obtain public subsidies. Notably as we did in the context of the revision of the RGEC, **we reiterate our proposal that the reference to venture capital companies include both legal forms of VC and PE AIFs**. This is a major point for French PE and VC AIFs, which have essentially been set up as mutual funds;

    b. The concept of autonomous SMEs is difficult to understand for companies owned by private equity vehicles, in particular due to the absence of an obligation to consolidate accounts, justified by the fact that PE and VC AIFs acquire undertakings and divest after a holding period of 5 to 7 years. We believe that, as it is, this criterion applicable to VC and PE AIFs disadvantages SMEs which are funded by PE and VC AIFs and discourages them from seeking private investment. Therefore, **we call for the removal of the thresholds and the application of a full exemption for VC and PE investments to the criteria of SME's definition**.

2. **Develop a comprehensive EU venture and growth capital ecosystem**

    a. **Thoroughly review the EuVECA Regulation**, which should be fundamentally simplified and reshaped in order to significantly enhance its appeal to both managers and investors. For instance, eligible assets should be expanded and funds of funds permitted. A platform-based solution should be set up in order to support fund managers in scaling up their fundraising efforts and diversifying investments geographically. In addition, investor eligibility should be enlarged and disclosure requirements streamlined. In addition, the label should be actively promoted, in particular vis-à-vis institutional investors.

    b. **Better identify potential beneficiary startups and scaleups in the EU**

        - **Introduce an EU savings product** in the form of an EU label for national products invested in EU companies. It would apply to national savings products that meet specific criteria and ensure the necessary legibility and visibility for savers.

        - Use the ESAP to make information on companies available to investors.

        - Ensure the protection of intellectual property in order to increase the likelihood of investment. A robust IP protection strategy can enhance a company's ability to attract investors, thereby securing financial resources to further invest in innovation and its protection. The EPO/EUIPO (2023)[2] found that startups with patent or trademark activity are more likely to obtain PE or VC

[2] Invest Europe | EUIPO Report

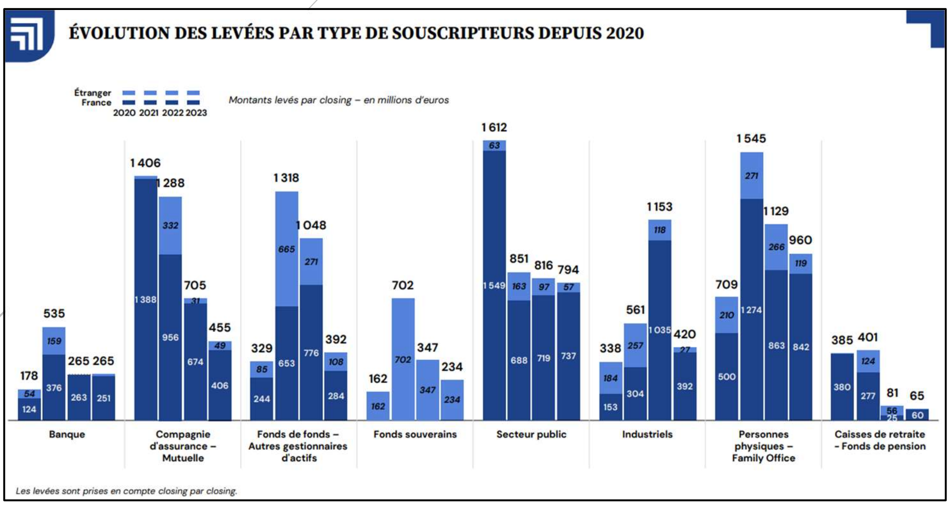
financing than those without IPR protection.

c. **Involve more corporates in corporate venture schemes** (i.e. investments by corporates in venture capital funds) and make such schemes more attractive for them. Corporates, alongside institutional and retail investors, serve as key sources of capital for PE/VC funds. They can engage in VC investments for strategic or diversification reasons as well as for fiscal motivations (through amortization). In particular, corporate venture schemes enhance companies' visibility to investors and facilitate external growth, while maintaining confidentiality of their trade secrets, as the fund acts as a shield between them and investors. Conversely, these schemes provide investors with access to a broad range of startups, increasing investment opportunities. The aim is to encourage large SMEs, mid-caps and major groups to set up their own corporate venture initiatives. It is crucial to leverage corporate results to stimulate innovation and mobilize resources for medium- to long-term projects. This could also be implemented through an alliance of corporates investing in a venture fund dedicated to investments in innovative EU companies. Encouraging corporates to invest alongside retail investors in shared funds would help increase fund sizes, ultimately providing greater financial support to startups.

d. **Introduce incentives to attract and retain talent in startups and scaleups**: encourage to share the value created and encourage talent to work in innovative companies by capitalizing on the attractiveness of a harmonized stock option regime: a level playing field is needed at both European and global level.

3. **Create a more enabling environment for fundraising and investing and establish a true Savings and Investment Union**

<u>Create a more enabling environment for fundraising</u>



a. **Channel more cross-border and foreign investments towards startups and scaleups**: the rules should be adapted to encourage European PE/VC funds to raise cross-border and international money. In 2023, funds raised by our members outside France decreased by 48% compared to 2022 and represented only 17% of the total funds they raised. Currently, many institutional investors prefer investing in the Member State where they are located. A more harmonized and legible framework would encourage both cross-border investments across and foreign investments into the EU. In the same way, it would be helpful for foreign investors if FDI regimes were harmonised at EU level and more legible for foreign investors.

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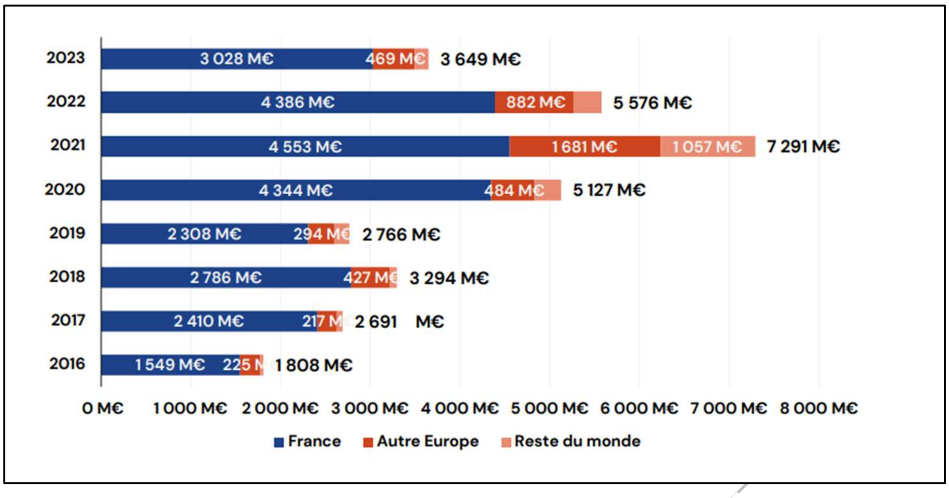

i. The EU's 27 national FDI regimes create complexity and uncertainty for investors. While full harmonization may not be feasible, greater alignment in rules, processes, timelines, and documentation would improve transparency and reduce administrative burdens. A harmonized FDI screening system could mitigate inefficiencies and costs arising from regulatory divergences, supporting cross-border investment in the EU.

ii. Further, the EU's FDI regime should exclude passive investment structures, particularly VC/PE funds, to avoid deterring non-EU investors. Unlike direct investors, VC/PE investors do not control fund managers' investment decisions. Including such passive structures in FDI rules would create unnecessary barriers and limit EU business investments. Instead, regulations should focus on ensuring fund managers prevent undue foreign influence over portfolio companies rather than restricting capital inflows from passive investors.

b. **Encourage retail investors to invest in startups and scaleups** and enhance their financial literacy. **Wealthy individuals and family offices have become significant subscribers in venture and growth financing and were the segment's main subscribers in 2023 (26% of the funds raised by our members).** This being said, the vast majority of these individual subscriptions were made through vehicles accessible only to professional investors, with minimum investment amounts of €100,000. The recent review of the ELTIF regime as well as the upcoming rules initiated under the RIS should contribute to this objective.

c. **Entice institutional investors to increase their support to startups and scaleups**: the development of pension funds should be encouraged, prudential requirements applicable to institutional investors investing over the long term should be alleviated (Solvency, CRR) and allocations to PE/VC funds through pension plans and life insurance contracts be encouraged (cf. French Green Industry Law).

d. **Encourage Member States to introduce:**

i. **Schemes such as the Tibi initiatives.** The French Tibi initiative could be extended to the EU level to increase the financing capacity of innovative companies by mobilizing the savings of institutional and corporate investors to create larger investment funds. Two options can be considered: create a single platform supported by the European Commission or set up a joint cooperation platform mobilizing voluntary Member States. At this point, feedback on the French experience appears to support the second option, primarily because it entrusted governance to private investors.

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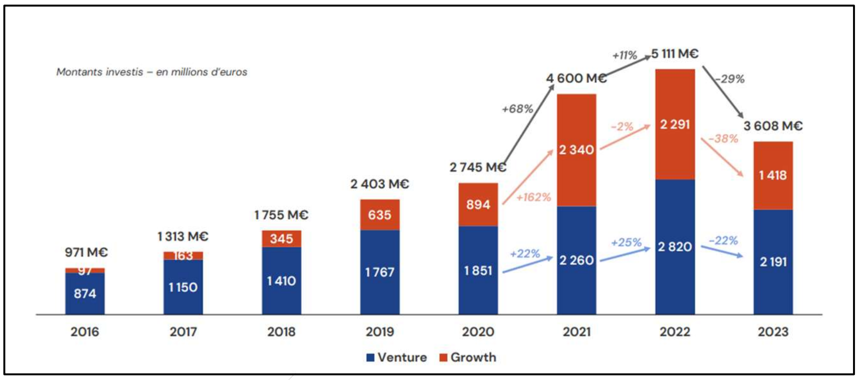
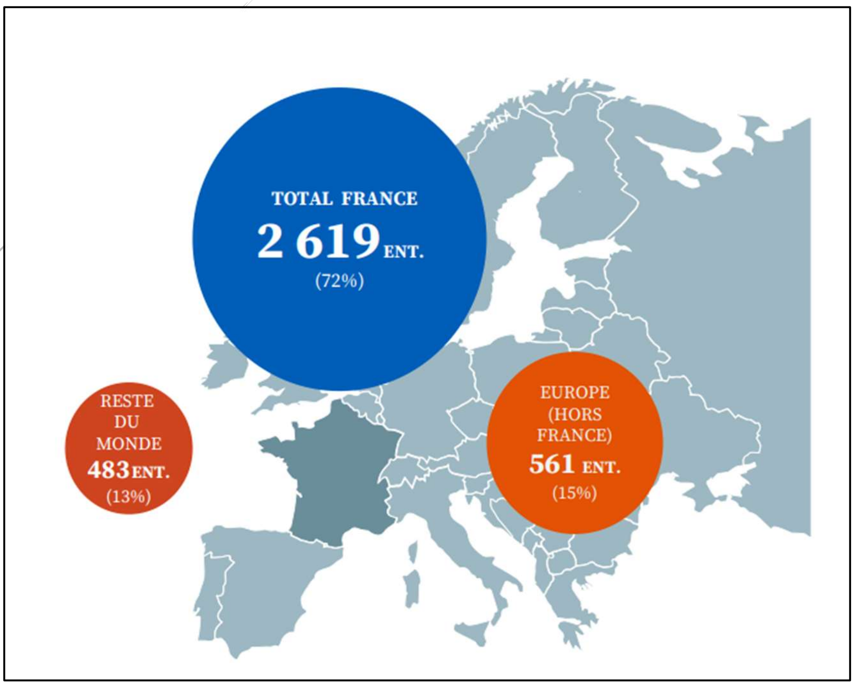
ii. **Fiscal incentives** for investors who invest in startups and scaleups. To ensure that these incentives do not burden their finances and may even be beneficial, Member States could reclaim the tax advantage in the event of capital gains by introducing a claw back mechanism on capital gains distributions exceeding a minimum yield to be defined.

iii. **A guarantee of priority reimbursement and return for private investors supporting innovation projects.** This mechanism would be supported by public entities such as the European Investment Fund (EIF), which would invest alongside private investors in funds dedicated to innovation and reindustrialization. Inspired by the Canadian model, this mechanism would offer private investors priority reimbursement of their contributions as well as a minimum return, whereas public investors, for their part, agree to have their capital repaid second and only subject to sufficient performance.

<u>A more enabling environment for fundraising and investing</u>





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e. Put in place a 28th regime for companies, which will facilitate investments by investors located in other Member States or in third countries
f. Harmonise insolvency rules

We remain at the disposal of the Commission for further input and look forward to the publication of its Communication.

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Contact

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About France Invest

Established nearly 40 years ago, France Invest brings together venture capital, private equity, infrastructure and private debt teams based in France, as well as the associated professions which support them. Its membership currently counts roughly 460 management firms and 200 associate members.

Private equity supports unlisted companies for a fixed period of time and provides them with the equity capital, through the acquisition of minority or majority stakes in their capital, needed to finance growth and transformation projects. It supports the creation of start-ups (venture capital), participates in the growth and transformation of many regional SMEs and mid-caps (growth capital) and contributes to the transfer of companies (replacement capital).

France Invest's members represent one of the main growth drivers for the French and European economy and support a significant portion of employment in France and Europe. In 2023, French private equity and infrastructure players invested €31 billion in 2,700 companies and infrastructure projects. They raised €33 billion from investors, half of which abroad (just under one third at EU level excluding France), which will be invested over the next 5 years[3]. In addition to that, in 2023, private debt players (structures financing companies and infrastructure projects) invested €14 billion in 387 transactions and raised €10 billion that will finance new transactions in the coming years[4]. European companies, in particular start-ups and SMEs, are the main recipients of our members' investments. Over the 2017- 2022 period, over 330 000 jobs were created in companies backed by French venture capital and private equity[5].

[3] https://www.franceinvest.eu/activite-du-capital-investissement-francais-en-2023/
[4] https://www.franceinvest.eu/activite-des-fonds-de-dette-privee-en-france-en-2023/
[5] https://www.franceinvest.eu/croissance-et-creation-demplois/