

# ***Working Together on Growth: Enterprise Policy on Track***

## **Progress Report on Enterprise Policy 2014**

### ***Chapter 1 Philosophy and results of enterprise policy***

#### **1.1 Philosophy and design of the enterprise policy**

##### *The Netherlands: well positioned for growth*

The European and Dutch economies are showing signs of recovery. At the same time, the economic tide remains fraught with uncertainties and the consequences of the crisis are still felt. The geopolitical tensions in Eastern Europe and the Middle East pose a risk for global trade and, hence, also for the Dutch economy. Fortunately, the Netherlands has solid foundations and is well positioned for growth. For many years now, we have ranked among the ten most competitive and innovative economies in the world (consolidating our eighth place in 2014), while also being among the world's top five most productive, digital and export-oriented economies.<sup>1</sup> On top of this, the Netherlands also has an advantageous geographical location, an entrepreneurial spirit, top researchers, a world-class ICT infrastructure and an open international orientation.

##### *Societal challenges as a source of future growth*

Global societal challenges offer new growth opportunities to Dutch entrepreneurs, researchers, educational institutions and government agencies in a wide variety of fields ranging from water management, food security and climate change to safe society, circular economy and healthcare. Embracing the motto 'Global Challenges, Dutch Solutions', the Netherlands is ideally placed to devise creative solutions to all these diverse issues. Crucially, in this context, the ongoing digitisation of society not only serves to boost production and employment, but is also paving the way to new services and revenue models.

##### *Consistent policy*

With its enterprise policy the cabinet is pursuing a two-track strategy to leverage the Netherlands' revenue-earning capacity and competitiveness: generic measures for all entrepreneurs (such as tax incentives for innovation, reduction of regulatory burden, SME loans and guarantees) are supplemented with the top sector approach aimed at promoting nine innovative and export-focused sectors. Within the top sector approach, entrepreneurs, researchers, educational institutions and government agencies work together on the implementation of integrated sector agendas. Together they programme and coordinate research in an effort to create new knowledge and innovative products and solutions, improve the availability of well-trained staff, reduce the regulatory burden and secure a strong positioning for the Netherlands abroad. The government participates as a network partner in PPPs at regional, national and European level. As individual public and private parties no longer have in-house access to all the knowledge and resources they need to innovate, they are increasingly joining forces. Experience shows that collaborative consortiums provide fertile

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<sup>1</sup> Rankings of globally competitive and innovative economies (WEF, European Innovation Scoreboard), digital economies (WEF), export countries (WTO) and productive countries (Conference Board).

ground for the development of unique knowledge which is in growing global demand. Moreover, PPPs also attract more private investment into both fundamental and applied research.

#### *SME sector*

One key focus within the enterprise policy is to stimulate start-ups and second-stage businesses in the SME sector, which is a vital driver of the Dutch economy. With this in mind, the cabinet is committed to creating an improved ecosystem around entrepreneurs, which can help them to learn the required skills and find the right partners – from financiers to knowledge networks – both at home and abroad. Entrepreneurs stand to benefit from a facilitating government that eliminates unnecessary administrative costs and provides entrepreneurs with modern and digital support. One particular concern at the moment is that many companies, and SMEs in particular, have difficulty raising funding. A varied and accessible financing landscape is therefore a priority for the cabinet.

#### *Regional clusters*

Strong regional clusters in which national government and regional parties combine forces are crucial for economic growth. In line with the Slob/Samson motion (Parliamentary Paper 27 406, No 214), the cabinet is working to reinforce these clusters. Strong PPP activity is visible in numerous regional hot spots throughout the Netherlands. Alongside Brainport Eindhoven, which is one of the world's leading centres of innovation, other hot spots include Bioscience Park Leiden, Wageningen Campus (Food Valley), Science Park Watergraafsmeer and the Chemelot Campus in Limburg (see boxed text) where educational and knowledge institutions, businesses and regional government agencies support each other with knowledge and resources. Besides promoting the formation of enterprising clusters, innovation, internationalisation and the closer alignment of education with the labour market, these thriving ecosystems are also crucial for the origination and further development of successful start-ups.<sup>2</sup>

#### **Campuses as regional hot spots**

Campuses are increasingly evolving into regional hot spots where universities, vocational education institutions, research institutes and businesses, including SMEs and start-ups, work together. Campus development is vigorously supported by the government. One example is the Chemelot Campus where the provincial authorities of Limburg, Maastricht University (in collaboration with Eindhoven University of Technology and RWTH Aachen University), DSM and various start-ups are developing biomedical and biobased materials in the new knowledge institute InSciTe. Physical proximity helps to leverage the revenue-earning capacity. On-campus businesses have ample opportunities to meet and mix with each other, thus accelerating the circulation of knowledge. The eight large campuses have good connections with European programmes and are well organised. Among other things, they conduct periodic consultation about themes such as real estate financing and capital-intensive activities, acquisition and entrepreneurial development and growth.<sup>3</sup>

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<sup>2</sup> The impact of the spatial economic policy in the region is currently being evaluated. The evaluation, which will be sent to the House of Representatives later this year, analyses the effects of two major shifts in the National Spatial Economic Policy (*Ruimtelijk Economisch Beleid*, REB): the shift in emphasis to strong regions instead of disadvantaged regions and the decentralisation of the REB in 2010.

<sup>3</sup> A government-commissioned up-to-date overview of all campuses in the Netherlands will be published in autumn 2014.

## 1.2 The enterprise policy is on track

Three objectives were defined at the start of the enterprise policy. Based on the results achieved, the conclusion we can draw after three and a half years is that the enterprise policy is on track.

### 1. *The Netherlands must be among the world's top five knowledge economies by 2020.*

In 2014 the Netherlands consolidated its eighth place on the world league table of knowledge economies of the World Economic Forum (WEF), making it the third-placed EU country after Finland and Germany. This is the ninth consecutive year that the Netherlands was listed in the top ten. The eighth place was mainly gained on the strength of the country's good education system, infrastructure and innovation performance. The progress in the past year, says the WEF, was mainly driven by the Top Sector Approach (which promoted joint investments in innovation) and the Technology Pact (which boosted the efforts to increase the supply of well-trained technical staff). According to the WEF, further improvements can still be made regarding a more flexible labour market and better availability of funding.

### 2. *By 2020, the Netherlands must spend 2.5% of the Gross Domestic Product (GDP) on research and development (R&D), invested by public and private parties.*

Private R&D is continuing to show a rising trend. In 2011 private parties contributed 1.08% of GDP to research and development, while the joint contribution of private and public parties totalled 1.90%. In 2012 the percentages had increased to, respectively, 1.14% and 1.97%.<sup>4</sup> Foreign investments also accounted for part of the private contribution (see Chapter 5).

### 3. *In 2015 public and private parties must contribute at least €500 million in Top Consortiums for Knowledge and Innovation (TKIs), of which at least 40% is financed by the business sector.*

In 2013 private parties contributed €199 million ('cash') to PPP projects on the basis of which the TKIs applied for supplements. The private share in the total funding of these partnership projects is estimated at 35%. Combined with the public contribution, the total size of PPP projects (for which TKI supplements were requested) is estimated at €571 million. This amount will increase further when the 'in-kind' contributions (hours worked by businesses) are also identified and quantified.

The Advisory Council for Science, Technology and Innovation (AWTI) and OECD note that the cabinet has initiated the correct steps to preserve and improve the revenue-earning capacity of the Netherlands for today and the future. Both independent advisory bodies underline the importance of working in a PPP context and pursuing an integrated policy.<sup>5</sup> In its recently published Global Competitiveness Index 2014, the WEF also observes that the top sector policy is beginning to bear fruit.

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## **Main results of the past year:**

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<sup>4</sup> The GDP calculation method was recently revised. Without this change, the Netherlands would have achieved 2.10% in 2012.

<sup>5</sup> OECD, *Innovation Review* (2014) and AWTI, 'Balans van de Topsectoren' (October 2014).

- **Private contributions to PPPs:** Private contributions to public-private research collaborations in the past year ran to €199 million ('cash'). There are 2,000 unique parties working together within the TKIs, including 1,900 businesses (see Chapter 2).
- **Increased SME participation:** SME involvement within the top sectors intensified further in the past year. In 2013, for instance, about 1,400 SMEs took part in PPP projects within the TKIs while the Scheme to Promote SME Innovation in Top Sectors (MIT) enabled over 700 SMEs to contribute via innovation projects towards the realisation of the top sector agendas (see Chapter 2). In addition, over 1,300 businesses participate in the Centres of Expertise (higher vocational education) and Centres for Innovative Craftsmanship (secondary vocational education).
- **Increased enrolment for technical courses in higher education:** Enrolment for technical subjects accelerated strongly in the 2013-2014 academic year: by 7% for higher vocational programmes and 12% for university Bachelor's programmes (see Chapter 4).
- **Increase in foreign investments:** Foreign investments into the Netherlands surged: just over 190 projects were secured in 2013, jointly generating investments of €1.7 billion and creating a record number of 8,500 jobs; an increase of 60% relative to 2012 (see Chapter 5).

#### **Main outcomes of Enterprise Policy Monitor 2014:**

- **The Netherlands is one of the world's most productive countries:** The Netherlands is making good progress in the field of innovation. R&D expenditures are rising at a moderate pace. Dutch businesses have a relatively strong focus on innovation regarding their non-technological knowledge investments. These investments contribute to productivity growth alongside and, above all, in combination with 'hard' technological R&D. This is why the Netherlands still realises high productivity levels by international standards.
- **Top sectors are drivers of R&D and exports:** New Statistics Netherlands (CBS) figures underline the importance of the nine top sectors for R&D and exports. In the 2010-2012 period, the top sectors as a whole outperformed the overall Dutch economy in terms of added value and labour productivity growth.
- **The Netherlands is one of the most entrepreneurial countries in Europe:** Thanks to healthy market dynamics and the entrepreneurship-friendly climate, the Netherlands scores high on entrepreneurship by international standards.
- **Top sectors make substantial contribution to resolution of societal challenges:** Innovation in the top sectors makes a substantial contribution towards the creation of full or partial solutions to societal challenges. This is evident from e.g. an analysis of the participation in European R&D programmes and the TKI project portfolios.

*Table 1 Enterprise policy including top sector approach 2010-2014*

	2010	2011	2012	2013	2014
Labour productivity level (international position)	5	4	5	5	
Global Competitiveness	8	7	5	8	8

Index (WEF)					
R&D intensity (in % of GDP)	1.83 %	1.90 %	1.97 %		
R&D intensity in top sectors (in % added value)	-	4.2 %	4.4 %		
TKIs PPP projects (in cash)				571 million	
TKI private share				35%	
Technical education enrolment	80,068	74,785	74,109	75,844	
% fast growers	3.32%	3.19%	1.97%		
<i>Top sector development relative to overall economy</i>					
Added value (2010=100)	100.0	100.6	100.8	102.0	
Labour Productivity	126.6	127.7	128.0	128.1	

Source: Enterprise Policy Monitor 2014

Results were also achieved at instrumental level. The new Future Fund made €100 million available to the Dutch Venture Initiative (DVI) for improving the ecosystem for start-ups and growing businesses (see Chapter 3). Within the TKI supplement scheme, in-kind contributions up to the first €20,000 are also eligible for a supplement, €30 million has been made available for the MIT scheme (with extra attention being devoted to cross-sector cooperation), the TTI transition will embed the valuable elements from the former top technology institutions in the mainstream knowledge infrastructure, and knowledge organisations and businesses have made arrangements about further research cooperation within the top sectors.

### 1.3 But the policy is not yet complete

The enterprise policy is on track, but not yet complete. The government sees scope for further improvement, partly on the basis of recommendations from AWTI, OECD, Panteia and WRR. Among other things, AWTI observes in its 'Balans van de Topsectoren' (Top Sector Results) report that the enterprise policy and top sector approach have set in motion a major systemic change that calls for a whole new mind-set. This transition will take a long time to complete. AWTI also notes that the approach has generated strong dynamics and many results. To reap the fruits of this policy in full, AWTI recommends continuing the current policy for an extended period of time (minimum of 10 years) – but AWTI also adds that this approach is still capable of further improvement and makes three recommendations for this purpose:

#### 1) Create a uniform and shared vision

The Council acknowledges that the Minister of Economic Affairs consistently propagates the vision, but does not yet see this vision 'landing' everywhere. The government regards this as an encouragement to stand by its vision and to continue entering into dialogue about its vision with all relevant parties.

#### 2) Exercise greater control over the process

AWTI advises the government to play a proactive facilitating role in order to further accelerate the creation of PPPs and to simplify the instruments. The government agrees with AWTI that a proactive facilitating role can be expected from the government. At the same time, the

government points out that the top sector policy largely relies on practitioners in the field taking the initiative. It is not for the government to play the role of entrepreneur and researcher. The simplification of the instruments remains an important focus for the government. The boxed text below sets out the steps that the government is taking in this respect.

### *3) Connect all players in the golden triangle*

AWTI observes strong involvement of large companies, leading SME businesses, universities and research institutions, but believes that, for instance, the wider SME sector, higher education institutions, policy ministries and regional agencies could be involved even more closely. This difference in intensity of involvement is something that the government recognises. It could also be deduced from the experiences of various parties in public-private collaborations. The cabinet is therefore investing heavily in the contacts with regional authorities, which has already led to cooperation with a number of provinces in the MIT sphere. A number of policy ministries such as the Ministries of Health, Welfare and Sports (VWS) and Infrastructure and the Environment (I&M) are already closely engaged in the top sectors, but given the nature and extent of the current societal challenges, this is being further intensified, also in relation to the 'Grand Challenges' in the European research and innovation programme Horizon 2020. Ministries such as Interior and Kingdom Relations (BZK) and Security and Justice (V&J) will also be more closely involved. The actions for achieving a broader reach within the SME sector are set out below.

Based in part on the recommendations of AWTI, OECD, Panteia and WRR, the government will focus on the following priorities in the year ahead.

#### **The government will focus in the coming period on:**

##### **- SME support:**

The SME sector makes an important contribution to the Dutch economy (see also enclosed Enterprise Policy Monitor 2014). Access to funding is crucial for the SME sector. The government is therefore focusing on:

**1)** Roll-out of the Supplementary SME Finance Action Plan, which will make at least €2.5 billion of extra funding available. The government has earmarked a guarantee budget of €1 billion for this purpose and will also invest €155 million.

**2)** Reinforcement of ecosystems around start-ups and second-stage businesses. To this end, the government is providing support in finding the right partners, networking and learning the required skills. These innovative and upscalable start-ups generate new business activity and knowledge and export opportunities for the Netherlands.

**3)** A further increase in the SME participation rate in the top sectors. Information and the SME instruments are important tools for this purpose. For this reason, the government will again make €30 million available in 2015 for the MIT scheme, while the budget for the European programme Eurostars 2 will be raised to about €13 million per year.

##### **- Technical vocational education:**

In contrast with higher education, student enrolment for technical secondary vocational

education is falling, despite the relatively large number of technical vacancies. The Technology Pact will address this issue in the coming year. Due to a shortage of good traineeships and apprenticeships at secondary vocational level, students are unable to complete their training. The cabinet is encouraging businesses and educational institutions to resolve this mismatch.

- **Global societal challenges:**

A strong connection between the societal challenges and the initiatives of top sectors is of vital importance. The government is thus embracing the AWTI recommendation to 'create value from societal challenges'. The cabinet will also set up visible platforms to showcase what businesses and knowledge institutions contribute to societal challenges. The National Icons (see boxed text below) are one good example of this.

- **'Future Vision for Science':**

The 'Future Vision for Science' ('Toekomstvisie Wetenschap') document is due to appear this autumn. Key themes will be the connection between science and societal challenges, the cooperation between universities, knowledge institutions, businesses, non-profit organisations and government agencies, and the social and economic impact of science.

- **Further simplification of instruments:**

An effective and simple set of instruments is also desirable within the top sectors. Major steps forward are being made in this respect; the TKI supplement scheme is being simplified and the Horticulture & Propagation Materials top sector is working on an 'Integrated Programming' pilot, where various research budgets are pooled and deployed for the benefit of the entire innovation chain. Regarding the generic instruments, a study is being carried out to establish whether two R&D incentive schemes (WBSO and RDA) can be merged into a single integrated wage tax relief scheme.

Besides the above points, which are discussed in more detail in the next chapters, the cabinet is currently working on the details of the recently announced 'Future Fund'. The House of Representatives will be separately informed about the progress of the programme for reducing the regulatory burden before the end of this year. Finally, the progress report on the Green Growth agenda will be presented to the House of Representatives in the spring of 2015.

**National Icons that the Netherlands can be proud of**

On 31 March 2014 the Minister of Economic Affairs, acting on the cabinet's behalf, launched the search for 'National Icons' at TEDxBinnenhof. The cabinet, supported by a jury chaired by Hans Wijers, has embarked on a search for ground-breaking projects with a strong social and economic impact: icons that the Netherlands can be proud of. Examples from the past include the Dutch Delta Works, the artificial kidney and the compact disc. The iconic projects constitute an inspiring example of how the Netherlands is exploring innovative avenues to find solutions for societal challenges that can also boost our national revenue-earning capacity in the future. The cabinet offers the future icons a national and international platform and helps them progress to the next level. The government removes barriers and gives them national and international exposure in the form of trade missions, access to Europe, media attention and ministerial networks. The National Icon is also assigned an ambassador at ministerial level. The cabinet's search elicited no fewer than

164 entries from extremely diverse parties in the business and knowledge world. The jury was deeply impressed by the high quality and originality of the entries and the tremendous energy that this initiative has unleashed. The rich harvest is testimony to the extensive knowledge, creativity and entrepreneurship that is present in the Netherlands. On 6 November 2014 the cabinet will unveil the first National Icons during the Innovation Conference in the Ridderzaal in The Hague.



## **Chapter 2 Stronger innovative capability**

### **2.1 Introduction**

To continue growing our prosperity in the future, it is essential to constantly strengthen our innovative capability. In an open and innovation-friendly environment, creative minds can thrive and ideas can be brought to fruition in new products, technologies and services that generate new business activity and revenue-earning capacity. This is increasingly taking place in collaborations between diverse regional, national and European parties that are able to combine the requisite knowledge and resources (see boxed text below on TAPAS 2 and ARC NL). To retain our strong global position, both public and private parties must continue making contributions by investing in research and in the further development and utilisation of results by society. The government can also do its bit by providing support to excellent research institutes, introducing incentives to boost private R&D contributions, and encouraging knowledge valorisation. In this connection, PPPs constitute a key pillar of the enterprise policy. OECD has expressed its appreciation for this Dutch approach, while also pinpointing certain issues that will be taken on board in the cabinet's policy review.

#### **Thermoplastic Affordable Primary Aircraft Structures – TAPAS2**

During the state visit of French President Hollande to the Netherlands in January 2014, an agreement for research and technology cooperation was signed between French aircraft manufacturer Airbus and a Dutch consortium comprising Fokker Aerostructures, Ten Cate, six Dutch SMEs and the knowledge institutions TU Delft, the University of Twente and NLR. The collaboration is focused on the innovative application of renewable plastics in large structural aircraft components known as 'Thermoplastic Affordable Primary Aircraft Structures – TAPAS2'. Achieving benefits for society is the key challenge. In seeking to reduce the weight of aircraft, the project aims to cut the CO<sub>2</sub> emissions per passenger and thus give a direct impulse to green mobility. Another focus of the project is to make smarter and more efficient use of materials, because thermoplastics are extremely suitable for recycling. In addition, the project will create high-skilled employment and give an impulse to the economy.

### **2.2. Growing private contribution to R&D**

The trend towards private research & development (R&D) continued to accelerate in the past year. More and more businesses are discovering that in difficult economic times it is more crucial than ever to invest in innovation. The more innovative the product range, the better a company can withstand tough economic times. The cabinet is encouraging private investments with wage and capital tax incentives and wealth tax reductions as well as with co-investments via the government-funded innovation fund 'Innovatiefonds MKB+'.

To encourage private R&D investments on a broad and effective basis, the government must be adaptive and take account of changing economic conditions and the evolving requirements of businesses. In the past years, for instance, the opportunities for SMEs to benefit from the government incentive package were greatly improved. In 2013, over 22,000 companies took

advantage of the WBSO and RDA tax relief schemes. A relatively large proportion of the budget for these schemes goes to the SME sector (65%) whereas, according to CBS figures, SMEs accounted for 45% of the private R&D expenditures in the Netherlands in 2012. In order to make tax schemes even more accessible and effective, the cabinet is exploring whether the WBSO and RDA can be merged into a single integrated wage tax relief scheme with effect from 2016. This will lead to a simpler application procedure for businesses and make it easier for them to use the available tax advantages.

To further improve the development opportunities for SMEs within the top sectors, the cabinet has endeavoured to provide extra information and specific instruments. In the past year 1,900 businesses including 1,400 SMEs participated in the TKIs.<sup>6</sup> Within the MIT scheme to promote SME innovation in top sectors, the demand for R&D partnership projects and feasibility studies is particularly strong. Thanks to this MIT scheme, over 700 SMEs contributed in 2013 to the top sector agendas by means of innovation projects. The private R&D investments of MIT-participating SMEs in 2014 are estimated at €60 million, with the Ministry of Economic Affairs providing support to the tune of €30 million. Cross-sector cooperation was encouraged in 2014 by giving these projects preferential treatment during the assessment procedure. This additional impulse is necessary as many ground-breaking technologies arise at the intersection between various top sectors. By way of further support, the provinces of Noord-Brabant and Limburg have each made €1 million available via the MIT to assist SMEs within specific top sectors in their provinces, namely High Tech Systems and Materials (Noord-Brabant) and Agri & Food and Horticulture & Propagation Materials (Limburg). The cabinet aims to expand similar forms of regional cooperation wherever possible and is currently engaged in talks for this purpose. The two motions in this field from the House of Representatives provide further impetus for this movement towards greater regional cooperation. The House has been promised that it will be informed of the outcomes before the end of 2014 if possible.<sup>7</sup> Heartened by this promising start, the cabinet has decided to put up an extra €15 million for 2015, bringing the total MIT budget to €30 million, the same amount as in the past year.

#### **MARIN research institute opens maritime test facilities to start-ups**

Innovations for cleaner, smarter and safer ships are usually trialled in large-scale test facilities. Models are used in large basins to test diverse scenarios, such as heavy storms at sea. Unfortunately, these tests are expensive and beyond the reach of innovative start-ups in the maritime sector, which is why the MARIN research institute decided to make its test facilities available in the past year. Starting businesses were invited to enter innovative maritime concepts for a chance to win two weeks of free test time. Six out of twenty entries won test time. In May Minister Schultz (Infrastructure and the Environment) visited two of the winners: Mocean Offshore

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<sup>6</sup> The number of unique private parties comprises both Dutch and foreign companies. The SME share is an estimate of the Netherlands Enterprise Agency (RVO.nl)

<sup>7</sup> Motions of Mulder following the WGO Annual Report (Parliamentary Paper 33 930-XIII, No 19) and Slob/Samson following the WRR debate (Parliamentary Paper 27 406, No 214) and the promise following the WGO Annual Report (Parliamentary Paper 33 930 XII, No 21).

B.V. and Seasupport B.V. which both specialise in offshore wind farm installation and maintenance. MARIN will again make test facilities available to start-ups in 2015.

As a participant in the European Eurostars programme, the Dutch government encourages international collaborative innovation for high-tech SMEs. Eurostars-2 (2014-2020) got under way this year as the sequel to the previous edition (2007-2013). Eurostars-2 particularly enables Dutch high-tech SMEs to carry out technological innovation projects in collaboration with foreign partners. Dutch businesses can derive great benefits from this cooperation in terms of knowledge spill-overs and increased competitiveness, which is why the government is raising the Dutch Eurostars budget to about €13 million per year. As Eurostars-2 is a Joint Programme based on the EU Treaty, the EC will increase this amount by a third.

Apart from direct incentives to invest in R&D, the enterprise policy also seeks to create a better climate for innovation, for instance through the efficient protection of intellectual property. It will soon be possible to obtain uniform patent protection on a one-stop shop basis for the largest part of the European Union, while patents can also be enforced before one and the same court. This saves costs, avoids duplicate work, and promotes legal certainty. This new system is expected to take effect in 2016.

### 2.3 Solutions to societal challenges

Since the start of the enterprise policy in 2011 the top sectors have been pursuing agendas aimed at the resolution of societal challenges. The Energy top sector, for instance, is working on energy transition, Logistics is contributing to CO<sub>2</sub> reduction and improved accessibility, while Agri & Food and Horticulture & Propagation Materials are promoting sustainable food production and healthy eating (see boxed text below). The top sectors are attaching growing significance to societal challenges, as is evident from the themes of diverse research calls that have been organised. The Life Sciences & Health (LSH) top sector, for instance, is focusing on dementia and the Water and Energy top sectors are exploring new energy harvesting methods (energy from waste water, tidal energy and salt/fresh water osmosis). The 'Societal Challenges', as defined in the Horizon 2020 programme, serve as the guideline for these efforts. The cabinet has underlined the importance of this in an agenda letter to the top teams and, in parallel with this, is working together with Applied Research Organisations (TO2) to align the research programmes even more with the Horizon 2020 programme. Amongst other things, €14.6 million will be made available in 2015 for partnership projects that contribute to societal challenges.<sup>8</sup>

#### Sustainable food production and healthy eating

The Agri & Food (AF) and Horticulture & Propagation Materials (HPM) top sectors have set themselves the task of making these Dutch sectors sustainable in diverse areas, including food production. A sum of €1.8 million will be made available for this purpose via the SBIR scheme.<sup>9</sup>

<sup>8</sup> Parliamentary Paper 32 637, No 146. Letter about the joint strategic framework for the federative partnership 'Toegepaste Onderzoek Organisaties (TO2)'.

<sup>9</sup> The abbreviation SBIR stands for 'Small Business Innovation Research'.

This money can support innovative businesses with the development of products, processes or services that can bring about breakthroughs in such fields as more efficient resource utilisation and the valorisation of residual waste streams. In addition, the cooperation with NWO in the field of fundamental research has been further intensified. In 2014 NWO and the AF and HPM top sectors issued four research calls themes such as sustainable soil, sustainable chains and robust systems, bioeconomy, healthy food for people and animals and socially responsible innovation (several top sectors). Of NWO's total contribution of €210 million to the top sectors in 2014, over €18 million was earmarked for these calls.

Many societal challenges occur on the intersection between diverse top sectors. This is why cross-sector cooperation, such as in the field of 'Smart Energy Cities' (see boxed text), is so important. The latest ICT applications play a key role in enabling such cross-sector partnerships. ICT is a vital 'enabling technology' that helps to create new products, services and revenue models within and between sectors, as well as to improve existing work processes. Dutch ICT research and the Dutch PPP model are internationally acclaimed. This opens up new growth opportunities abroad. Together with American partners, for instance, programmes have been set up in the field of cyber security. Another initiative, instigated by NWO, concerns the launch of a programme in which universities (e.g. University of Amsterdam, University of Groningen and TU Delft) have teamed up with companies (e.g. Shell, Vodafone and Intel) in the Netherlands and India in order to use big data, gaming and simulation technologies to carry out projects for, among other things, energy-efficient data centres and smart urban traffic management solutions. New ICT applications that can spawn innovative revenue models are also at the heart of the 'Smart Industry' action agenda. This is currently being drawn up by a working group under the direction of FME Chair Ineke Dezentjé Hamming-Bluemink, which was set up on the initiative of the Minister of Economic Affairs.<sup>10</sup> The House of Representatives will receive further information about this in November.

#### **Green Deal: 'Smart Energy Cities'**

The 'Smart Energy Cities' Green Deal was signed at the Innovation Relay in late 2013. This deal gives an extra impulse to energy-neutral neighbourhoods by demonstrating innovations in built-up areas in such fields as 'Smart Grids', energy saving and local energy generation and storage. In the 2014-2019 period, smart energy concepts encompassing at least 100,000 buildings will be tried out in practice. The upscaling of smart concepts and the creation of energy-neutral housing is the central objective. Alongside the Ministry of Economic Affairs (EZ) and five TKIs of the Energy and Creative Industry top sectors, the parties involved include the Association of Network Operators (Netbeheer Nederland) and five large municipalities. This Green Deal makes a concrete contribution to the realisation of the Energy Agreement.

The top sectors are addressing societal challenges together with various government agencies. HTSM, for instance, is pursuing mobility management and sustainability in close cooperation with the Ministry of Infrastructure and the Environment. Together with regional parties and the

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<sup>10</sup> Alongside FME-CWM and the Ministry of Economic Affairs (EZ), the working group also includes TNO Applied Research, ICT Netherlands, Chambers of Commerce and the Confederation of Netherlands Industry and Employers (VNO-NCW).

Ministries of the Interior and Kingdom Relations (BZK), Infrastructure and the Environment (I&M) and Economic Affairs (EZ), the top sectors are exploring better ways of marketing the Netherlands' unique qualities in the field of 'Smart Cities' (part of several Horizon 2020 societal challenges). At a major conference this autumn, the top sectors and the Ministry of Security & Justice (V&J) will home in on the important subject of social safety. Many of these initiatives are carried out in close collaboration with the regional partners, as the costs of high-profile challenges such as the ageing population are not just a national but also a regional-urban concern. Healthy ageing, for instance, is a key priority of the north Netherlands region. Accordingly, top research institute ERIBA, Biobank Lifelines, the University of Groningen and the University Medical Centre Groningen are putting this issue at the heart of their research and innovation programmes.

#### **2.4 Progress on Public-Private Collaborations (PPP)**

PPP takes up a central position in the nine knowledge- and export-intensive top sectors, as is expressed in the joint research that is taking place. The private contributions to public-private research programmes increased in the past year. Businesses contributed a total of €199 million ('cash') to public-private research programmes. A dedicated fund, known as the 'Future Fund' (Toekomstfonds), is being set up to stimulate our future earning capacity in a stable manner. The funding will come from gas revenue windfalls. In order to give innovation an immediate impulse, the cabinet will allocate a start-up capital of €200 million to the fund until the end of 2016. These resources will be used to finance innovative and fast-growing SMEs as well as for fundamental and applied research.<sup>11</sup>

#### **ARC-NL: Investing together in scientific breakthroughs in nanolithography**

The rapid advent of such devices as the tablet or smartphone would not have been possible without nanoelectronics. For decades this science has been developing according to Moore's Law, which states that the fundamental building block of nanoelectronics, the transistor, shrinks by 40% every two years. Lithography, the technology that determines the shape of the transistor, plays an essential role in this process. In 2013 ASML took the initiative together with the University of Amsterdam and VU University Amsterdam, FOM Institute AMOLF and NWO to set up the Advanced Research Institute for Nano Lithography (ARC-NL) at the Science Park Amsterdam with a view to bringing about scientific breakthroughs. ARC-NL started on 1 January 2014 and will offer work to about 100 PhD students. The budget is €30 million for the coming ten years, with ASML contributing a third. The remainder will come from FOM, the two universities, NWO and the City of Amsterdam. The idea is that breakthroughs in nanolithography will lead to faster and more powerful chips which can be applied in a broad spectrum of sectors, thereby enabling more innovative solutions to societal challenges in e.g. healthcare, transport, communication and energy management.

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<sup>11</sup> Letter to House of Representatives, *Toekomstfonds* (16 September 2014) AEP / 14151115.

To give everyone clear guidance on how this research must be carried out, the government, together with researchers and entrepreneurs, has drawn up rules for the programming and implementation of fundamental and applied research within the PPP context. These rules were sent to the House of Representatives on 25 June 2013.<sup>12</sup> AWTI notes that these rules are a good example of the government acting in a more proactive facilitating role.<sup>13</sup> In the run-up to the new innovation contracts that will be drawn up in 2015, a new review will be carried out this autumn to assess the experiences of all parties involved.

Many public-private research and innovation projects take place in the Top Consortia for Knowledge and Innovation (TKI). Since the merger of three TKIs into the new Chemicals TKI and the cross-sector biobased theme, the number of TKIs has been reduced from 19 in 2014 to 17 in 2015. The *TKI supplement scheme*, which provides for a 25% supplement on top of the private investment contributions, took effect in 2013. In 2014 the scheme was adjusted to bring it more into line with the specific wishes of the sectors. Supplements can now be applied for at more times throughout the year and multi-year programmes are now also eligible for the supplement scheme. In addition, the basis for calculation has been broadened: when calculating the first €20,000 of their private investment, companies can now include their 'in-kind' contributions (hours worked) as well as their cash contributions. Moreover, a new option is being piloted, where TKIs can elect to use part of the earned supplement to increase the MIT allowance for the relevant top sector. Agri & Food has made use of this option to reinforce innovation in the SME sector. To achieve a further simplification of the TKI supplement scheme, the following arrangements have been agreed with stakeholders effective from 2015.

- Applications for a supplement must be based on the committed (instead of expected) private contributions to public-private collaborations, thus giving the TKIs more certainty about the size of the supplement.
- Supplements used for new PPPs will not be subject to further-reaching requirements than set out in the new Research, Development and Innovation (OOI) state aid framework.
- A subsidy will be made available to support the organising capability of the top sectors and TKIs.
- Efforts will be undertaken to explore ways of reducing administrative costs in cases where the Ministry of Economic Affairs (EZ) allocates public funding to a PPP project from several sources.

A review of the results for the first year of the TKI supplement scheme is contained in the *Enterprise Policy Monitor 2014*.<sup>14</sup>

The cabinet attaches great importance to the further embedment of PPP in the mainstream knowledge infrastructure. The top sectors have therefore been requested to submit a transition plan in order to make the proven strengths of the Technological Top Institutes (TTIs), which are currently financed from ad hoc resources, a structural part of the mainstream knowledge

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<sup>12</sup> Parliamentary Paper 28 753, No 30.

<sup>13</sup> AWTI, 'Balans van de Topsectoren'.

<sup>14</sup> EZ Budget 2014, the Mulder motion (Parliamentary Paper 33 750, No 27).

infrastructure. All top sectors except the Creative Industry have submitted transition plans.<sup>15</sup> The Ministries of Economic Affairs (EZ), Infrastructure and the Environment (I&M) and Health, Welfare and Sports (VWS) have released a total of €64 million, of which two-thirds for research and one-third for other activities such as network creation and knowledge transfer.<sup>16</sup> These efforts assure the structural embedment within NWO, TO2 Institutes and the TKIs of the top sectors. The Chemicals top sector, for instance, has benefited from these transition funds to put in place an organisation based on the themes of 'Advanced Materials', 'Chemical Nanotechnology & Devices', 'Chemical Conversion, Process Technology & Synthesis' and 'Chemistry of Life'. Thanks to this set-up, Chemicals can respond even better to such societal challenges as health, food, energy, transport and climate.

## 2.5 European and regional cooperation

To strengthen the connection with the Horizon 2020 programmes, the government offers a good support structure that can encourage the exchange of best practices between top sectors. Furthermore, the cabinet is also providing financial support to encourage participation in European calls. To this end, it has made over €20 million of co-funding available via NWO. This has led to participation in new research programmes on themes within e.g. the Water and Creative Industry top sectors (see boxed text). In addition, from 2015 €50 million will be made available on a structural basis from the Ministry of Education, Culture and Science budget for researchers of higher educational institutions, universities and public knowledge institutions (for fundamental and applied research) in the Netherlands that want to receive a European subsidy in connection with Horizon 2020 to help cover the matching costs of the participants. This matching scheme is detailed in a Letter to Parliament about the Future Vision for Science ('Toekomstvisie Wetenschap').

### EU programme: 'Europe in a Changing World'

Within the European research programme 'Humanities in the European Research Area' (HERA), the research agendas of the Dutch Cultural Heritage Network (TKI CLICKNL / Creative Industry) are linked to those of the other European countries for the societal theme: 'Europe in a changing world: an inclusive, innovative and reflecting society'. Questions such as: 'how can we learn from the past?' and 'what is the impact of the past in solving contemporary problems, decision-making and the development of future policy?' are addressed here. This transnational research programme will start at the end of 2014 with a call of €25 million (€20 million from the national research financiers and €5 million from the European Commission). The Dutch contribution of €1.5 million comes from the NWO Humanities budget and from the EU co-funding resources for the top sectors.

PPP is also an important factor within European policy, partly via the industry-driven Joint Technology Initiatives (JTIs). The Dutch companies and knowledge institutions are strongly positioned in the current JTIs in the field of biobased industries, aviation, electronics, fire and hydrogen cells and innovative medicines. The government has actively worked together with

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<sup>15</sup> The creative industry did not yet have a TTI (Technological Top Institute).

<sup>16</sup> Letter to Parliament April 2014: Parliamentary Paper 28 753, No. 33.

businesses and knowledge institutions in order to effectively align the European and Dutch programmes. For instance, the substantive objectives of the innovative medicines JTI correspond closely with those of the LSH top sector.<sup>17</sup> This puts Dutch companies and knowledge institutions in a strong position to acquire funding from the more than €6 billion that the European Commission (EC) is investing in these programmes.<sup>18</sup> At the same time, the investments of the EC serve to leverage the investments of some €11 billion from private parties and member states, so that projects totalling some €18 billion will be developed in the 2014-2020 period. Alongside these large multi-year programmes, there are also smaller PPP programmes, for instance in the field of energy-efficient buildings, green vehicles and factories of the future.

The cabinet's ambition is to at least equal the success of the Seventh European Framework Programme (KP7) with Horizon 2020. This will yield extra funding which can be used to reinforce the quality of Dutch research. Within KP7, almost €3.4 billion<sup>19</sup> of European funding was acquired, of which nearly €1.7 billion can be allocated to the top sectors.<sup>20</sup> Horizon 2020 is even more focused than KP7 on bringing innovations to market and thus generating an economic and social impact. To this end, the new 'fast track to innovation' approach will be tested in 2015. This approach is designed to ensure that new products or services are launched onto the market within four years. Together with the 'SME Instrument'<sup>21</sup> this creates greater opportunities for the SME sector, including scope for multidisciplinary and cross-sector projects. The Netherlands Enterprise Agency (RVO.nl) provides Dutch companies and knowledge institutions with useful advice that demonstrably improves their chances of making successful project applications.

Better fine-tuning between European and national research programmes also takes place via the Joint Programming Initiatives (JPI). These initiatives are aimed at tackling the major societal challenges that cannot be resolved at national level, such as the research programme to promote a more balanced diet, sufficient physical exercise and, by extension, a healthier life ('A Healthy Diet for a Healthy Life'). Agri & Food and LSH are among the participants in this programme, while NWO makes a contribution of €4.5 million. The Water top sector takes part in the JPI Oceans that is dedicated to healthy and productive seas and oceans (see boxed text).

#### **EU programme: 'Joint Programming Initiative Oceans'**

One social and economic problem is the steadily growing amount of plastic waste that ends up in water and, ultimately, in the sea. The sea is under threat of gradually becoming a plastic soup. Particularly the microscopically small particles (microplastics) constitute a potential danger. However, the detection and measurement of these microplastics are still in an early stage of development. The Water top sector, together with NWO, is taking part in a microplastics pilot of

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<sup>17</sup> 'Pharmacotherapy, Molecular Diagnostics', 'One Health' and 'Imaging and Image-guided Therapies' Roadmaps.

<sup>18</sup> European Commission Notice COM No 494, dated 10-7-2013.

<sup>19</sup> Letter to Parliament 2 501-31, No 343, dated 19-6-2014.

<sup>20</sup> The aim is that 25% of the acquired funding goes to the business sector. This was 22% in KP7. See also *Enterprise Policy Monitor 2014*.

<sup>21</sup> With the SME Instrument ('Mkb Instrument') the SME sector can submit its own project proposals for developments close to the market.



the European 'Joint Programming Initiative Oceans' (JPI). Under the direction of VU University Amsterdam, a collaborative partnership is being set up between laboratories in eleven European countries for the joint development of protocols and measurement methods. This initiative is receiving €500,000 from the EU co-funding that is available at NWO for top sectors.

The European EFRO programme is also focused on the promotion of cooperation in the field of innovation, only at regional and interregional (also cross-border) instead of national level. These programmes encourage innovation (with a particular focus on cooperation and valorisation projects for SMEs in the top sectors), a low-carbon economy and labour mobility. The four regions of the Netherlands will each concentrate on their specific strengths and projects for this programme can be submitted starting from 2015.<sup>22</sup>

The intensification of cooperation between national government and the regions is an important priority within the enterprise policy. Connections between top sectors and regional partners have been established via, for instance, the appointment of regional innovation brokers in the Agri & Food and Horticulture & Propagation Materials top sectors and during the drafting of the national agenda consisting of regional energy projects. The activities originating from the PPP within the top sectors are clearly visible in the Netherlands' strong regional clusters such as Brainport Eindhoven, BioScience Park Leiden and Science Park Watergraafsmeer. The development of these strong innovative clusters is being stimulated by the Economic Boards, in which regional government works together with public and private partners. The impact of the spatial economic policy in the region is currently being evaluated. The evaluation will be sent to the House of Representatives later this year.<sup>23</sup>

#### **Reinforcement of Eemsdelta Chemicals and ICT Cluster**

The competitiveness of the chemicals industry is under pressure, largely due to the relatively high European energy costs compared to the US and the Middle East. Despite this, the Dutch chemicals industry is in fairly good shape thanks to innovation, cost-efficient production and a strong PPP research tradition. The regional clusters, such as Chemelot, the Port of Rotterdam, Terneuzen/Bergen op Zoom and the Eemsdelta, play a key role in this respect. After the bankruptcy of the Groningen-based company Aldel, the government gave the Eemsdelta cluster an impulse, with a particular focus on new business activity with innovative SMEs and start-ups and further PPP programmes. National government and the province of Groningen are each making €20 million available in order to induce investments from SMEs and large corporations and put the cluster back on an upward track. Opportunities can mainly be found in the intersections between Chemicals, Energy, Agri & Food and ICT. Google, for instance, recently opened a new data centre in the Eemsdelta, investing €600 million and creating 150 permanent high-skilled jobs, alongside an estimated one thousand jobs in the construction sector.

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<sup>22</sup> Parliamentary Paper 21501-08, No 525.

<sup>23</sup> The study analyses the effects of the two most important shifts in the National Spatial Economic Policy that occurred in the past ten years: the shift in emphasis to strong regions instead of disadvantaged regions and the decentralisation of the spatial economic policy in 2010.

## Chapter 3 Free rein for ambitious entrepreneurs

### 3.1 Introduction

As home to more than one million entrepreneurs, the Netherlands is among Europe's most enterprising economies. A strikingly large number of people in the Netherlands see entrepreneurship as a good career choice: nowhere in the EU are people more positive about entrepreneurship than in the Netherlands. Dutch entrepreneurial prowess is now almost taken for granted, but the figures show that the Netherlands has only recently catapulted itself from an anonymous mid-league position ten years ago to a global leadership position today. The Netherlands has created an excellent business climate for its large and vibrant population of entrepreneurs. In the most recent Expert Opinion Survey, the Netherlands obtained the highest scores for many aspects.<sup>24</sup> However, complacency is not an option, because the Netherlands occupies a mid-league position when it comes to fast growers and upscalable ambitious start-ups. Accordingly, the cabinet is now pressing ahead with its ambitious entrepreneurship agenda for start-ups and growth (*Ambitieuze Ondernemerschap: een agenda voor startups en groei*). Launched in March of this year, this agenda aspires to create an improved ecosystem for start-ups and growers, partly by stimulating network creation and skills improvement. Financing is an important issue for this agenda, as are good networks, fewer regulations and lower administrative costs.

### 3.2 Ambitious entrepreneurship: capturing the world and pushing the boundaries

As indicated in the StartupNL Agenda, ambitious entrepreneurs are vital drivers of employment, innovation and growth. An ambitious entrepreneur explores new avenues and is keen to change the world with ideas via an innovation-driven and upscalable company. International research (OECD) shows that young companies account for 40% of new jobs, irrespective of the economic cycle. Start-ups – innovation-driven upscalable companies – are responsible for a third of these, while only forming 2% to 3% of the starter population. Starting companies are initially much less productive than their established counterparts. This may have to do with the extra time and effort required for e.g. exploring the market, building up networks and developing new products and services.

Further gains can still be achieved in the Netherlands in terms of growth and ambition. In the 2009–2012 period, for instance, the Netherlands only had 2% fast growers based on employment, which is not a high score compared to benchmark countries. There is also still room for improvement in terms of growth ambitions. In 2012, only 18% of Dutch entrepreneurs expected to employ more than five people within five years, whereas the OECD average is 26%.

Various studies (e.g. AWTI)<sup>25</sup> and personal experiences of entrepreneurs show that an entrepreneur's 'growth capacity' is determined by various factors. Following on from the StartupNL Agenda, an ambitious entrepreneurship programme for start-ups and growth (*Ambitieuze*

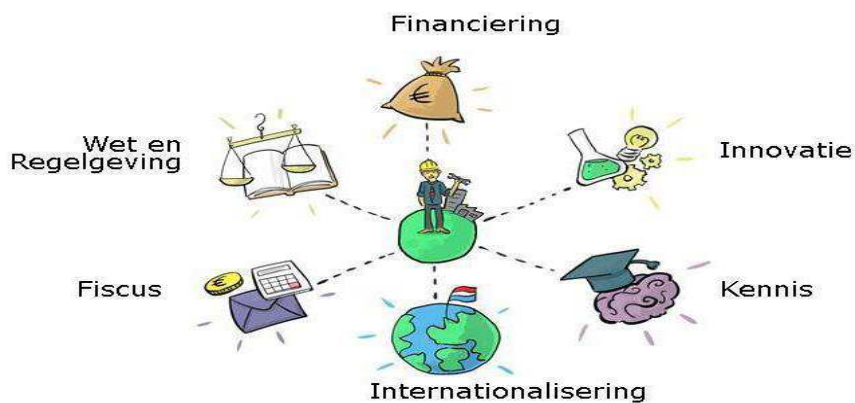
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<sup>25</sup> AWTI Advice No. 85, 'Brijlante bedrijven: effectieve ecosystemen voor ambitieuze ondernemers' (March 2014).

*Ondernemerschap: een agenda voor startups en groei*) was sent to the House of Representatives in March 2014. This programme announced more than 30 actions which are intended to make it easier for entrepreneurs to realise their growth potential. To create the best ecosystem (see Figure 1) for successful start-ups and growth, the actions focused on the following factors:

1. access to capital: access to (risk and growth) funding;
2. access to innovation and knowledge: use of schemes and developed knowledge;
3. access to the Netherlands and the world: attract international expertise and entrepreneurs and gain access to international markets and customers;
4. access to tax facilities: attractive tax conditions for growth;
5. access to each other: the entrepreneur's social capital, the entrepreneur's own skills and how he/she deploys the business's human capital;
6. the conditions in which the entrepreneur operates, such as laws and regulations.

Figure 1: The entrepreneurial ecosystem with the determining factors



[Funding, Innovation, Knowledge, Internationalisation, Tax, Laws and Regulations]

The programme aims to secure for the Netherlands a permanent top five position on the aspects of fast growers and growth ambition among entrepreneurs within the OECD from 2020. The Netherlands is currently in 22nd place.

Since the programme started in March, the following milestones have been achieved:

- The 'early phase financing' scheme commenced on 1 July 2014. This makes financing possible from the initial phase (idea conception or scientific knowledge) to a commercially viable concept.
- The start-up residence permit is expected to be available for application as of January 2015. This will give ambitious start-ups from other countries better access to the Netherlands.
- The Lead Partnership initiative is under way. This initiative connects starters, government and large companies, thereby enabling starters to develop more quickly and large companies and government agencies to innovate more easily.
- NLevator has been launched. This is a platform set up for and by ambitious entrepreneurs with a view to reinforcing the ecosystem for growth companies and connecting networks.

- To strengthen the connections between start-ups and top sectors, a pilot aimed at start-ups that act as suppliers to festivals and events is being carried out (see boxed text below).

#### **Dance festivals as a testbed**

In the Creative Industry top sector, ID&T, one of the largest dance event organisers in the Netherlands and Belgium, set up a pilot together with the Ministry of Economic Affairs in which the dance sector acts as lead customer for innovative entrepreneurs and start-ups. Dance festivals are being used as a testbed for trying out water-and energy-saving innovations and innovative crowd control methods for large events. The participating entrepreneurs receive coaching to help them improve and refine their product. This pilot, named 'Open House', will be launched by Minister Kamp (Economic Affairs) during the Amsterdam Dance Event in October.

Clearly, much has already been done to improve the ecosystem for start-ups and growers, but the cabinet sees even more opportunities and is therefore undertaking extra efforts to promote the development of national and international hubs of innovation-driven, upscalable start-ups in the Netherlands. This can generate new business activity, while also attracting new knowledge into the Netherlands and opening up new export opportunities. The appointment of a Special Start-ups Envoy and the efforts to raise the Netherlands' profile as a country with a good start-up climate are two key policy priorities in this respect. The Letter to Parliament about an ambitious start-up and growth agenda (*Ambitieuze Ondernemerschap: een agenda voor startups en groei*) contains a pledge to provide annual reports on the progress of the programme. This progress report, containing updates on the current progress of all actions, can be found in Annex 1.

### **3.3 Larger and more varied sources of funding**

Since the outbreak of the credit crisis and the prolonged recession, the financial position of SMEs has deteriorated and banks – the main source of lending – are required to apply stricter risk acceptance procedures. This has made it more difficult for entrepreneurs to obtain credit. To avoid stagnation in the SME sector, the government offers various finance instruments. Under the existing government instruments, about €7 billion of funding is currently available, mainly for SMEs. Various actions were undertaken in the past year to give SMEs better access to finance: the innovation credits for the co-financing of innovative projects for small businesses were temporarily expanded, the Seed facility was enlarged effective from 1 July 2014, the Qredits credit limit was raised to €150,000, the investment options of the Regional Development Companies (ROMs) were increased, and the financing desk at the Chamber of Commerce was opened (see Table 3).

In July 2014 the cabinet launched the Supplementary SME Finance Action Plan (*Aanvullend Actieplan Mkb Financiering*), making at least €2.5 billion of extra SME funding available. This action plan focuses on the structural strengthening of the financing market and giving SMEs better access to venture capital. To this end, a guarantee capital of €500 million has been made available for subordinated loan funds, investments in the Dutch Venture Initiative (DVI) have been expanded by €100 million (see boxed text below), and the early-phase financing scheme has been put on a

structural footing. This enables SMEs to strengthen their financial position and gain easier access to bank and venture capital funding.

#### **DVI: €100 million extra to improve ecosystem for start-ups and second-stage businesses**

Since mid-2013 the cabinet, together with the European Investment Fund (EIF), has been investing via the Dutch Venture Initiative (DVI) in private equity companies and business angels for SMEs. More than half of this €150 million fund has already been invested in funds, including five funds – Prime Ventures, Gilde Healthcare, Karmijn Kapitaal, Newion and Aglaia – that have already put more than €400 million of investment capital into the innovative SME market. The cabinet is making €100 million extra available to the DVI from its new Future Fund, thus further improving the ecosystem for start-ups and growers. One example of a successful investment of DVI and an Innovation Credit is Sapiens. Sapiens is a spin-out from Philips and develops implantable stimulators with brain probes for treating patients with neurological diseases. Sapiens was recently taken over by Medtronic, entailing that the financial support will be paid back into the innovation fund 'Innovatiefonds MKB+'.

A second part of the action plan concerns the broadening of the range of finance sources by putting up guarantee capital of €400 million for new providers of SME funding (see Annex 3 for the assessment framework for risk guarantee schemes), promotion of supply chain finance (see also boxed text below) and an expansion of the availability of Qredits funding. The third part aims to improve information on the creditworthiness of companies, facilitate access to public instruments for SMEs and improve the financial knowledge and skills of entrepreneurs. This is supported with a budget of €13 million. The existing range of skills development options for small-business entrepreneurs is already broad, but does not yet cover all needs. In the action plan, €5 million has been earmarked to boost the ambitions and enhance the growth skills of small businesses.<sup>26</sup> These three lines of action, the accompanying instruments and the most important innovations in 2014 are summarised in a diagram in Table 3.

#### **Supply Chain Finance in the logistics sector**

Supply chain finance offers an alternative solution for financing the working capital of suppliers. Via its participation in PPP projects, the Logistics top sector seeks not only to promote the integration between information and goods flows, but also to optimise the financial processes between businesses. Supply Chain Finance is aimed both at the optimisation of the financing between businesses and the integration of financial processes with customers, suppliers, logistics companies and financial service providers. Instead of being based on the company's own creditworthiness, the financing is based on the creditworthiness of the customer, who can borrow at a lower interest rate from the bank or financial institution. Towards the end of 2014 the Logistics top sector, acting in association with the Ministry of Economic Affairs and the Supply Chain Finance Community, will hold a large conference as part of the Supplementary SME Finance Action Plan to launch the supply chain finance initiative.

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<sup>26</sup> Measures will be worked out in detail in the autumn with the Committee for Entrepreneurship and Financing and stakeholders.

### 3.4 Reduction of regulations and digitisation of government services

The cabinet is aiming to achieve a structural reduction of the regulatory burden for entrepreneurs, citizens and professionals of €2.5 billion in 2017.<sup>27</sup> A further objective is to realise a noticeable reduction in the regulatory burden by adopting a tailored approach for specific sectors where the regulations are perceived to be particularly burdensome, such as the Chemicals, Logistics, Agri & Food and LSH top sectors. Logistics, for instance, has teamed up with relevant public and industry organisations to tackle twenty specific bottlenecks, such as the digitisation of transport documents and the removal of obstacles for deliveries to shopping areas. Furthermore, digital services will be set up to facilitate the dealings of entrepreneurs with government. Examples are a single reliable and secure log-in procedure (the current eHerkenning system will be replaced with eID) and a Message Box enabling businesses to communicate with government agencies through a secure e-mail system.

Since the start of 2014 there is a single portal for digital government services where entrepreneurs can find up-to-date and reliable information about laws and regulations as well as receive advice and support. The 'ondernemersplein.nl' website provides easy access to the services of the Chamber of Commerce (KvK), the Netherlands Enterprise Agency (RvO.nl), the tax authorities and general government information ('Antwoord voor Bedrijven'). The government has also started with the introduction of a one-time data input service ('Ondernemersdossier') where entrepreneurs only need to enter business information once in order to submit it to several supervisors and licensing authorities. This digital service is gradually being introduced, starting with the hospitality sectors, the rubber and synthetics industry and the recreation industry. There are already over 4,500 entrepreneurs using the service, with 46 municipalities, 3 provinces and 2 national inspectorates taking part in the initiative. The construction, greenhouse, car dismantling and bakery sectors as well as sports clubs will start using the one-time data input service soon. The ambition is to have 80,000 businesses using the service by the end of 2016.

Acting in conjunction with the three major banks, the government recently launched the Standard Business Reporting (SBR) initiative aimed at reducing the administrative costs for entrepreneurs. Thanks to SBR, the entrepreneur can simply file all his financial documents (annual reports, income tax returns, Statistics Netherlands (CBS) statements and KvK filings) from a single administrative system to diverse parties. A consistent and universal application of SBR can thus also help to reduce the administrative and reporting costs for businesses. SBR is already up and running and further efforts will be made in the coming period to broaden the applications.

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<sup>27</sup> The House of Representatives will be separately informed about the progress of the regulation reduction programme before the end of this year. The most recently published update is the regulation reduction progress report of 18-6-2014 (Parliamentary Paper 29 362-235).

<b>Table 3: Increase finance options for entrepreneurs</b>				
<i>Objective:</i>			<i>Instruments:</i>	<i>Most important changes in 2014:</i>
<b>Realise more venture capital by developing the market</b>	Highest Risk segment	Venture loans	Early-phase financing for ambitious entrepreneurs (demonstrate that research/idea/concept is suitable for commercialisation)	Started on 1 July 2014 with an annual budget of €12.5 million that has been put on a structural footing with the Supplementary SME Finance Action Plan. Partnership opportunities for this 'early phase' are being explored with regional authorities/organisations, e.g. the pilot with the north Netherlands region in which regional and national implementing parties make mutual arrangements.
			Innovation loans (for innovative projects of businesses)	Co-financing for innovative projects has been temporarily expanded to a maximum of 50% for small businesses. €60 million is available per year.
		Co-investing in investment funds	Seed facility	As of 1 July 2014: broadening of target group definition and maximum contributions for investors and investments in all sectors. As of 1 August 2014: new tender (€20 million government, €20 million market)
			Regional Development Companies (ROMs). ROMs provide almost 50% of start-up & growth venture capital in the Netherlands.	ROM investment opportunities have been expanded via transfer of budgets and the creation of an ROM in 'Zuidvleugel Randstad' (southern section of the Randstad conurbation).
			Dutch Venture Initiative: invests in private investment funds that provide venture capital to rapidly growing innovative SMEs	Since mid-2014, €75 million has been pledged to funds and €100 million extra has been made available in the supplementary action plan for the financing of growth companies (this is expected to generate €0.7-1 billion)
		Informal investors	Business angels	A co-financing facility for professional business angels is expected to be set up in cooperation with EIF towards the end of 2014 (€45 million government/EIF, €45 million business angels)
	Lower Risk segment	Guarantees	New funding guarantee	Guarantee capital of €500 million will be made available for the realisation of funds that provide subordinated loans to SMEs, thereby strengthening the company's buffer and increasing the willingness to provide finance (expected: €1 billion of new SME financing).
<b>Broaden SME finance options</b>	Encourage new providers of SME funding	Together with ABP Pension Fund, make the roll-out of the NPEX SME Exchange financially possible with a loan of €1 million.		
		Raise awareness of crowd funding		
		Support the loan cooperative sector		
		The supplementary action plan makes a guarantee budget of €400 million available for the creation of new providers of finance and €100 million for the expansion of Qredits. Initiatives lead directly and indirectly to new SME funding (expectation at least €500 million).	Provision of a guarantee of €400 million to support funding from new providers of SME finance.	
			Together with the partners of Qredits, explore opportunities for raising credit limit from €150,000 to €250,000 effective from 2015 and offer much-needed working capital to SMEs.	
<b>Align public and private financing instruments</b>	Improve information on the eligibility of SMEs for funding	Launch of financing desk at KvK (incl. telephone support). The entrepreneurs' organisation MKB Nederland and the Netherlands' Bankers Association (NVB) also supply financing information via the Enterprise Credit Desk (Ondernemerskredietdesk).		
	Improve awareness and implementation of public financing instruments	Information campaign via the Week of the Entrepreneur and regional meetings		
		A loan of the Ministry of Economic Affairs (EZ) will enable the launch of a credit passport, with which entrepreneurs can demonstrate that they are eligible for funding.		

## Chapter 4 Talent for business

### 4.1 Introduction

With student enrolment for certain technical courses still too low, the recruitment of technical staff in certain regions and for certain technical professions and sectors is still posing problems for employers.<sup>28</sup> In order to achieve the ambitions for the future and meet the increased demand when the economy revives, it is essential to start training sufficient skilled technicians and engineers without further delay. A well-trained labour force is a prerequisite for innovation. With more than 70,000 builders, installers and electrical/mechanical technicians and engineers set to retire each year between now and 2020, even more skilled staff and international talent with a technical background will need to be recruited in the coming years. Moreover, apart from the replacement of retiring staff, businesses can also offer work to thousands of extra technicians and engineers. Growth opportunities abound in diverse top sectors, notably Life Sciences & Health (LSH), Horticulture & Propagation Materials (HPM), High Tech Systems & Materials (HTSM) and Chemicals. In these sectors, challenging jobs are on offer at all levels: from practical posts at secondary vocational level to top research positions at universities.

### 4.2 Technology Pact

The signing of the Technology Pact on 13 May 2013 marked the kick-off of a joint technology offensive of business & industry, top sectors, educational institutions, student organisations, employee organisations, regional authorities and national government in order to make education more responsive to the labour market in terms of both quantity and quality. The Technology Pact has got off to a good start.<sup>29</sup> Student interest in technical courses is clearly on the up. The number of first-year enrolments for technical Bachelor's programmes at university and higher vocational education level for the 2013-2014 academic year rose by, respectively, 12% and 7%. Less measurable, but at least as important: pride in the achievements and capabilities of technical and technological companies is growing in the Netherlands. Craftsmanship and technical skills are clearly gaining wider recognition and appreciation.

The following results were achieved in the past year:

- New school management and sector agreements in primary and secondary education for the embedment of science, engineering and technology;
- The number of technical Bachelor's programmes at higher vocational education level (65) will be almost halved effective from the 2015-2016 academic year. The 35 programmes resulting from the realignment are mainly broad Bachelor's programmes, which makes the range of training options more transparent. These broad Bachelor's programmes can respond more easily to developments in national and regional labour markets in the differentiation and graduation stages;
- The cabinet has decided to invest an extra €100 million on a structural basis (effective from 2015) in practical and technical courses at secondary vocational level. These investments will

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<sup>28</sup> ROA, *De arbeidsmarkt naar opleiding en beroep tot 2018* (November 2013).

<sup>29</sup> National Technology Pact Report, 1 year after signing (May 2014).



give secondary vocational schools more funding for their expensive technical training programmes;

- In mid-September 2014, 14 technical sectors and regions received final approval for their sector plan, including such sectors as metal working, graphic media, installation and ICT in such regions as Stedendriehoek and Noord-Veluwe in the east of the Netherlands. Employer and employee organisations in the technical and engineering sectors will invest €145 million via the sector plans.

Each region has different labour market problems. The Technology Pact has identified 22 actions for reinforcing and accelerating the regional approach. In this way the efforts to make education responsive and adaptive to the regional labour market and to preserve sufficient employment within the technical sectors are organised for maximum impact. The Technology Pact has given a strong impulse to national and regional cooperation between businesses, educational institutions and government agencies. Existing partnerships have been consolidated and new connections have sprung up between the regions within the various parts of the country. One year since its signing, the Technology Pact is still inspiring regions to draw up their own integrated technology agenda while existing technology agendas are being taken to the next level. One example is the Noordvleugel Randstad Technology Pact which aims to carry out the cabinet's vision for the northern section of the Randstad conurbation.

#### **4.3 Human capital agendas in top sectors**

In 2012 each top sector drew up a human capital agenda for the sector. These agendas provided vital input for the drafting of the Technology Pact in 2013. The agendas include an analysis of the needs for technical skills, a common vision on the education required to meet these needs and more detailed arrangements about how education and businesses from the top sector can help to provide pupils and students with appealing and challenging education that equips them for the labour market. Each top sector has its own priorities. The Creative Industry top sector, for instance, is keen to embed creativity as a competence throughout the educational curriculum, while the implementation and use of medical innovations is central to the human capital agenda of the LSH top sector (see also the boxed text below on skills in the Logistics top sector).

##### **Unique innovative customs training opens the doors to logistics**

Many logistics chains involve international transport. Good and fast customs clearance of goods flows is important to create a beneficial logistics climate for business. The Dutch customs authorities aim to minimise any interruption to these flows. At the same time, their responsibilities and tasks are increasing. Alongside the traditional task of ensuring that import duties are paid, these responsibilities now include wider aspects of international transport, such as safety & security, health, the environment and economy. Broad-based and good-quality training can speed up the customs clearance process. This is the core objective of the Executive Master's programme in Customs & Supply Chain Compliance that started last year. Public-private funding is guaranteed for a minimum number of training places. This post-graduate university programme is a partnership between three universities: Erasmus University Rotterdam for legal aspects, Eindhoven University of Technology for trade facilitation and logistics and TU Delft for business information

systems and compliance. This integrated university programme for future customs professionals is unique in the world.

#### 4.4 Public-private collaborations in vocational education

Since the top sector approach got under way, the human capital agendas and the Technology Pact have been instrumental in the creation of 18 Centres for Innovative Craftsmanship at secondary vocational education level (CIVs) and 24 Centres of Expertise at higher vocational education level (CoEs) (see Table 2 for the CIV and CoE funding overview).

Table 2 Funding for Centres for Innovative Craftsmanship (CIV) and Centres of Expertise (CoE)<sup>30</sup>

	Actual public funding	Actual private co-funding	Number of participating businesses
18 Centres for Innovative Craftsmanship	14 million	4 million	343
24 Centres of Expertise	52 million	13 million	987

Source: Platform BètaTechniek

At these centres, entrepreneurs, researchers, teachers and students work together to promote the quality of technical vocational education. The centres attract prospective students and serve as a crucial catalyst for the initiation and acceleration of innovations (see boxed text on Horticulture & Propagation Materials CIV). Via the regional investment fund for PPPs at secondary vocational education level, the number of centres is being expanded further. The first 18 applications for the regional investment fund were awarded by the Ministry of Education, Culture and Science (OCW) on 1 September. Over 30 institutions for secondary vocational education and more than 300 companies are investing together with government agencies in innovative vocational education. The subsidy involved is more than €14 million, supplemented with two-thirds co-financing from the business sector and regional government, thus leading to a total investment of over €42 million for starting up these long-term PPPs.

##### Centre for Innovative Craftsmanship in horticulture

Education and business are working together in the Horticulture & Propagation Materials CIV on such themes as seed improvement, international trade & plant health, online crop management, food safety & plant materials, technology and health. At eight regional meeting points (Greenport networks) of the CIV, pupils, students and course participants, teachers, practical coaches, specialists and entrepreneurs come together to share knowledge and discuss issues, services and products with each other. Since last September, students can attend six fully developed educational modules, both in mainstream and course-based education (vocational courses). The course offerings consist of both a theoretical and a practical component involving projects at leading businesses in the sector.

#### 4.5 Attracting and retaining national and international talent

Attracting new technical talent is vital for the top sectors. The top sectors have therefore agreed in the Technology Pact to award grants to technical students in higher education. The main suppliers

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<sup>30</sup> The CIVs and the COEs have both been up and running for 1.5 years on average with start-up funding of about 800,000 euros for the CIVs and about €2.1 million for the COEs. The actual private co-funding share is 38% for the CIVs and 29% for the CoEs, an excellent result for the start-up phase (target is 50%).

of these top sector grants in the past academic year were Chemicals and HTSM (both over 100), Energy (50) and Water (34). At present, the top sectors are continuing to work hard to meet the target of 1,000 grants pledged for 2016. The number of pledged grants for 2014-2015 is now 519 versus 161 grants for 2013-2014.

#### **Thales technology grants**

Various companies in the HTSM top sector have made concrete commitments to award grants of €5,000 per technical student per year. One of the participating companies is Thales which manufactures electronics for defence and security applications. Thales selects a different theme for the grants each year. Last year's theme was 'Women in Technical Studies' in order to address the disproportion between men and women in the workforce. Thales aims for diversity among its employees; in the coming years, the student recruitment campaign may focus on a specific age group or nationality. The response to the grants in the first year was twice greater than expected. Grants were awarded to ten candidates on the basis of motivation, grades and 'pitches'. Thales supports the students by assigning them a 'buddy' from the company. The students also do something in return, for instance by acting as an ambassador for Thales during visits from dignitaries to the company (such as the recent visit of Minister Bussemaker of Education, Culture and Science (OCW)) or speaking about Thales and its work on external platforms.

International talent is also welcome to study and build a career in the Netherlands. Various initiatives have been undertaken since autumn 2013, including most notably the joint action plan 'Make it in the Netherlands' of the Ministries of Education, Culture and Science (OCW) and Economic Affairs (EZ) and the umbrella organisations in education, among others, to step up the efforts to attract and retain international talent.<sup>31</sup> Knowledge migrants are also welcome. The Knowledge Migrants Monitor (*Monitor Kennismigranten*) of the IND Information and Analysis Centre shows that an average of 7,000 foreigners come to the Netherlands every year on the basis of diverse schemes, most notably the knowledge migrants scheme.<sup>32</sup> The ambition is to increase this number, partly by simplifying some of the admission rules.<sup>33</sup> Finally, the cabinet will take any additional measures necessary to further simplify the procedures for knowledge migrants.

#### **4.6 Much achieved, yet much still to do**

The mission of the Technology Pact and the human capital agendas has not yet been completed. The labour market is in constant motion. The knowledge and competences of today will no longer meet the needs of employers tomorrow. Due to new technological advances and ongoing automation (advent of 'smart industries'), many existing types of jobs will be rendered obsolete and replaced by new jobs that are still beyond our imagination. This is why it is so vital for educational institutions and companies to remain in constant dialogue and anticipate demographic, economic and technological developments. Lifelong learning and permanent education, designed to

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<sup>31</sup> Parliamentary Paper II 2013/14, 22 452, No 35.

<sup>32</sup> Information and Analysis Centre Immigration and Naturalisation Service, Quantitative Analysis, June 2013. Qualitative Analysis, June 2014.

<sup>33</sup> Letter to Parliament Security & Justice (V&J), *Vereenvoudiging van de toelatingsregelingen voor kennis en talent*, July 2014: Parliamentary Paper No: II 2013/14, 29 861, No 36.

cater to the broad needs of the labour market, must become the norm. That is the central objective of the Technology Pact.

One year after its launch, the urgency of the Technology Pact remains undiminished. Much work must still be done. In 2014 there were still signals of:

- waiting lists of secondary schools awaiting support from the business sector;
- secondary vocational schools struggling to keep their technology courses financially viable;
- teacher and student shortages for science & technical teacher training courses;
- too few women and ethnic minorities with a technical diploma working in the technical sector;
- unfilled vacancies in technical jobs and at companies within the top sectors. At the same time, there is a shortage of good traineeships and apprenticeships (work-based learning) at secondary vocational education level, so that students are unable to complete their training.

The Technology Pact can only succeed with strong support from the business sector, particularly at regional level. Many companies are already actively investing in the closer alignment of education with the labour market. Examples are participation in concrete PPPs ('cash' or 'in kind'), the offering of traineeships, the provision of grants, the co-development of teaching materials and participation in national primary and secondary school programmes (e.g. Jet-Net and Techniektalent.nu). However, further progress can still be made. Among the biggest challenges are the need to encourage even stronger involvement of the business sector, reduce free-rider behaviour and explain to businesses the objective of and connection between the Technology Pact and the business / top sector policy.

## Chapter 5 Internationalisation

### 5.1 Introduction

The Netherlands owes its strong competitiveness largely to the efforts of the top sectors. They are the ambassadors for the Netherlands' achievements abroad (see boxed text below). Other countries are important to the Dutch top sectors – not just as sales markets, but as a source of knowledge and innovation, talent and investment, too. The top sectors are therefore pursuing a joint strategy in an attempt to achieve a stronger international embedment. The government is supporting these efforts with an integrated approach encompassing diverse instruments (see *Enterprise Policy Monitor 2014*).

#### **The Netherlands assists China with food production**

During the state visit of Chinese President Xi Jinping, the Netherlands and China signed an agreement on investments in production quality, food safety and sustainability. Wageningen University is also working closely with the China Agricultural University in such fields as food quality and food security. China wants to use Dutch knowledge and technology to improve its agriculture and horticulture. At China's request, the Agri & Food and Horticulture & Propagation Materials top sectors gave presentations during the state visit about advanced agri-tech applications in the field of milk robots and the use of LED lighting to make tomatoes grow faster. With the aid of Dutch knowledge China hopes to boost its milk production to a total of 40 billion kilos in the coming years. The Chinese government has turned to the Netherlands for assistance because our country is a world player in milk production, processing and logistics.

Key objectives of the enterprise policy are to set up international networks as well as to give Dutch companies and knowledge institutions good access to existing networks. Via the worldwide network of business councils, innovation attachés, agriculture councils and representatives of the Netherlands Foreign Investment Agency (NFIA), the government is actively seeking to forge connections between national and international networks. In a Letter to Parliament (*Versterking van de economische dienstverlening aan het Nederlandse bedrijfsleven wereldwijd*) of 7 July last, Minister Ploumen (Foreign Trade and Development Cooperation, BHOS) informed the House of Representatives about the government's intentions and actions to further improve the quality of the economic services abroad, promote SME internationalisation and strengthen the international network.

### 5.2 Foreign investments and business climate

Attracting foreign investments is important for the Dutch economy and to reinforce the top sectors. Thanks to the efforts of e.g. NFIA, 193 projects of foreign investors were secured for the Netherlands in the past year, involving a total investment in the Dutch economy of €1.7 billion and generating a record number of new jobs – about 8,500 in total. Together with the top sectors and others, NFIA will continue to work on new investment projects in the coming year. Amongst other things, NFIA already signed a covenant with the Chemicals top sector and VNCI in July of this year in which the signatories undertake to pool their knowledge and expertise in order to attract

investors to the Netherlands. They will also share information on incoming and outgoing business missions and work together on strategically important events for the chemicals sector.

The appreciation for the Dutch business climate also increased in the past year.<sup>34</sup> In 2012 foreign investments accounted for over 5,000 jobs. In 2013 this number surged by over 60% to 8,500. Examples of projects that created or saved jobs in the past year are the R&D facility of German company Nunhems (500 jobs in Nunhem, Limburg), the distribution centre of US company Moduslink (500 jobs in Venray), Indian IT company Wipro (over 250 jobs in Eindhoven) and the new R&D centre of Swedish company SKF (100 new jobs in Nieuwegein). The opening of IBM's new service centre in Groningen is a shining example of how joint efforts of business, knowledge institutions and government can create extra jobs and income (see boxed text).

#### **New IBM service centre to open its doors in Groningen**

IT company IBM will open a data storage and customer service centre in the city of Groningen. The new centre will initially create 100 new IT jobs, ultimately rising to 350 new IT jobs. The IBM Services Center Groningen is the result of collaboration between the provincial and municipal authorities of Groningen, the Hanze University of Applied Sciences Groningen, the University of Groningen, the University Medical Centre Groningen and IBM. An added bonus is that this investment will enable students to acquire the knowledge and skills required by companies like IBM. In the coming three years the IBM Services Center Groningen will offer work to technology graduates and experienced professionals with a technical background. In addition, places will be offered to trainees and students working on their graduation assignment in order to retain the best technology talent in the city and region. The city of Groningen was selected as the location partly because of its large student population and the good cooperation with the provincial, municipal and educational authorities.

The cabinet sets great store by a good business climate. Good coordination concerning any activities that can help to reinforce the Dutch business climate is essential. The Ministers of Economic Affairs (EZ) and Foreign Trade and Development Cooperation (BHOS) have therefore decided to entrust the responsibility for strategic acquisition and business climate factors to the existing Dutch Trade Board (DTB) and to transform this into the Dutch Trade & Investment Board (DTIB). A dedicated business climate working group will also be set up within the DTIB. The DTB is a public-private collaboration that aims to promote international entrepreneurship. The remit of the DTIB therefore expands from trade issues and the strategic travel agenda to include acquisition and business climate issues.

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<sup>34</sup> NFIA Annual Figures (17 March 2014).

### 5.3 Economic missions and trade fairs

Economic missions are one important government instrument for connecting the business sector more closely to international networks. In the past year the destination and content of the cabinet's economic missions as well as the most important trade missions of regional authorities were tailored to the wishes of the top sectors.<sup>35</sup> There were 29 missions to 27 countries in the period from July 2013 – July 2014. At the end of 2013, for instance, Prime Minister Rutte travelled to Indonesia together with Minister Ploumen (Foreign Trade and Development Cooperation, BHOS) and State Secretary Dijksma (Economic Affairs, EZ) as well as Dutch companies and knowledge institutions. Indonesia is Southeast Asia's largest economy and is growing fast. The country currently faces major societal challenges in the field of water management and food safety – precisely the themes on which the Water, Agri & Food and Horticulture & Propagation Materials top sectors enjoy international renown. During the visit agreements were signed, leading to the opening of the Indonesian market for Dutch table onions. Contracts were also signed for the Dutch water sector (see boxed text).

#### **Dutch water sector active in Indonesia**

As Indonesia is one of the priority countries for the Water top sector, the missions headed by Prime Minister Rutte and Minister Schultz (Infrastructure and the Environment, I&M) to this country were of vital importance for this sector. No fewer than 100 businesses, including over 30 that are active in the water and port sectors, took part in the first mission at the end of 2013. Jakarta is located in a water-rich area and is actively seeking to create a secure environment with good coastal defences against flooding. The Dutch water sector has a lot to offer in this field. A joint vision and master plan were received with enthusiasm by the Indonesian authorities. Various contracts were also signed, notably for the dredging of Indonesian ports and the widening and deepening of the access channel to Surabaya.

Attention is also being drawn to the Netherlands' unique water expertise in the United States. In his capacity as special adviser, Henk Ovink was sent by the Ministry of Infrastructure and the Environment (I&M) and the Water top sector to the US where he is supporting Secretary Shaun Donovan who has been charged by President Obama with overseeing the response to Hurricane Sandy. A design competition was organised together with the Americans under the name 'Rebuild by Design'. One of the six winning teams was that of Dutch companies OMA and Royal Haskoning/DHV. The contract involved is worth \$230 million.

In the coming year the government will continue to work on the improvement of the public-private implementation of the travel agenda, for instance by involving the top sectors as early as possible in determining the focus and content of outgoing and incoming economic missions.

Collective participation in strategic trade fairs abroad is another important means of showcasing the knowledge and expertise of the top sectors to an international audience. The government

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<sup>35</sup> The travel agenda has been made available online to enable as many interested parties as possible to take part. [www.rvo.nl/onderwerpen/internationaal-ondernemen/exportbegeleiding/missies-en-handelsreizen/agenda/economische-reisagenda-2014](http://www.rvo.nl/onderwerpen/internationaal-ondernemen/exportbegeleiding/missies-en-handelsreizen/agenda/economische-reisagenda-2014)



supports this by annually facilitating a collective presentation at two internationally strategic fairs for each top sector via a Holland Pavilion and accompanying programme. In 2013 the top sectors were represented at 17 strategic trade fairs. Participation in 15 strategic trade fairs is planned for 2014. In the past year several top sectors opted for the Hannover Messe (see boxed text).

#### **HTSM, Energy and Creative Industry top sectors at the Hannover Messe**

In 2014 the Netherlands was the partner country of the Hannover Messe, the world's biggest industrial fair with over 220,000 visitors from more than 90 countries. The fair was opened by Chancellor Merkel together with Prime Minister Rutte. A record number of Dutch entries were represented in the exhibition area. Presented under the banner 'Global Challenges, Dutch Solutions', the Dutch entries came both from long-established companies and knowledge institutions as well as from start-ups. The HTSM (Holland High Tech), Energy (Holland Energy House) and Creative Industry (Creative Solutions) top sectors had a high-profile presence, showcasing their prowess in such areas as research, smart industry, energy, design and electric transport. The Netherlands manifested itself as a valuable technology and creative partner at the Hannover Messe.

#### **5.4 SME internationalisation**

The government is committed to SME internationalisation and took various initiatives in the past year to help SMEs spread their wings abroad. Alongside the initiatives set out in the aforementioned letter of Minister Ploumen of 7 July last, the Netherlands Enterprise Agency (RvO.nl) also organised 'technology matchmaking missions' mainly for SMEs and knowledge institutions.<sup>36</sup> One new initiative specifically targeted at start-ups is DutchBaseCamp, which brings together Dutch and foreign start-up networks. The Dutch SME sector is also an important partner for the government in bringing about sustainable economic development in middle- and low-income countries. The government makes diverse instruments available to reduce the risks of doing business in and with these countries. One new instrument stemming from the aid and trade agenda that was added this year is the Dutch Good Growth Fund. This fund is intended for the financing of development-relevant local investments and exports to low- and middle-income countries. Both small and large SMEs can make use of it.<sup>37</sup>

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<sup>36</sup> The monitor attached to this progress report contains the most recent quarterly overview of the activities of the network of innovation attachés.

<sup>37</sup> Also in 2014, new rounds were opened up for the PPP programmes for food security and water, which previously saw an intensive take-up by Dutch companies, and the Life Sciences & Health for Development Fund was started up to support the LSH top sector.

## **ANNEX 1**

### **Ambitious Entrepreneurship Progress Report** ***Capturing the world and pushing the boundaries***

Table 1 provides an overview of the progress made on all actions from the Ambitious Entrepreneurship programme. Regarding the more quantitative objectives of the programme, we refer to the enclosed Enterprise Policy Monitor 2014. Our specific focus this year is on the development of the main objectives of the programme; a more detailed monitoring framework is still under development.

The main objectives of the Ambitious Entrepreneurship programme are:

- for fast growers: a permanent top five position for the Netherlands within the OECD from 2020.
- for growth ambition among entrepreneurs: a top five position for the Netherlands within the OECD from 2020.

Table 1 Ambitious Entrepreneurship 2014 Progress Report

Action	Progress to date
<b>Access to capital</b>	
Early-phase financing	Since 1 July last, innovative SME entrepreneurs and (academic) start-ups can make use of the early-phase financing scheme. The SME Finance Action Plan has put this scheme on a structural footing with an annual budget of about €12.5 million.
Co-investment scheme together with the European Investment Fund (EIF) for business angels in the Netherlands	Co-investment scheme for business angels approved for co-financing by the EIF. The EIF is working to set up the fund, and this must be approved by Luxembourg, the regulator. Realisation is expected at the end of this year. Meanwhile, talks are ongoing with prospective business angels, so that the pipeline is filled for immediate use when the scheme starts.
Open a financing desk to give entrepreneurs better information	Realised in January 2014.
Extend the reach of information	The Supplementary SME Finance Action Plan contains a pledge to streamline the financing instruments and make these instruments more accessible.
Dutch Venture Initiative started in the summer of 2013.	This started in summer 2013. As indicated in the Supplementary SME Finance Action Plan, the cabinet is investing an extra €100 million via the Dutch Venture Initiative (DVI) in investment funds that provide venture capital to fast-growing SMEs.
More private investments by business angel programme.	To increase the private investments by business angels (informal investors), talks are under way to see whether the Chamber of Commerce can serve as a platform in order to provide entrepreneurs with information about business angel financing including referrals to the relevant business angel networks in the Netherlands. Training sessions will be organised to raise awareness of informal investment opportunities among prospective business angels and to improve the competencies and expertise of potential and existing informal investors.
Raise awareness of alternative financing options.	A year-long campaign has been conducted as part of the 'Week of the Entrepreneur' to raise awareness of alternative financing options, including theme-based sessions and an SME Finance Exchange ('Beursvloer') with parties that offer SME finance. In addition, an information campaign will be started soon by the crowd-funding association.
Financial education to make entrepreneurs better prepared	As part of the Supplementary SME Finance Action Plan, the cabinet has made €5 million available to raise the level of ambition and improve the growth skills among small businesses. Measures for this purpose will be worked out in the autumn.
Open up the SME Credit Guarantee Scheme (BMKB) to non-banks, such as loan cooperatives	The pilot for opening up the SME Credit Guarantee Scheme to non-bank financiers will be evaluated at the end of this year to see whether it should be maintained. The desirability of opening up the Enterprise Finance Guarantee (GO) will also be explored.
Make the Seed Capital scheme more flexible.	The flexibility of the seed capital scheme has been improved by broadening the target group definitions and enlarging the maximum amounts for investors and investments in all sectors effective from 1 July. A new tender was started on 1 August 2014 to make these improvements rapidly available to the SME sector.

Action	Progress to date
<b>Access to innovation</b>	
Make the innovation instruments more stimulating for start-ups and second-stage growth companies in 2014:	
<ul style="list-style-type: none"> <li>•Extend the first band of the WBSO R&amp;D tax incentive scheme</li> </ul>	Realised
<ul style="list-style-type: none"> <li>•Reduce the lower threshold</li> </ul>	Realised

<p>of the Innovation Credit Scheme</p> <ul style="list-style-type: none"> <li>• Increase the TKI supplement % over the 1st €20,000 cash or 'in-kind' contribution</li> </ul>	Realised
Various actions to improve the connections between top sectors and start-ups, including pilots	Last summer the Creative top sector started up a pilot to explore smart (PPP) ways to create new innovation-driven business activity: Open House. The Ministry of Economic Affairs (EZ) is working with the EDM sector (Event, Dance and Music) to encourage young entrepreneurs and lead customers to develop new innovative products, services and systems in an open innovation system based on challenges from the sector and society. Other initiatives to connect top sectors and start-ups include cooperation with incubators.
Encourage innovation-driven procurement	Renewed online applications – including the innovation toolbox ('innovatiekoffer') – are almost complete and were launched in September. Five projects have been added to the programme, including Blue Energy Katwijk. There are strong connections, also with Economic Affairs themes such as energy and successful market sessions, including sustainable civil engineering and the illumination of historical buildings. Together with the Ministry of the Interior and Kingdom Relations (BZK), which is responsible for procurement coordination, active efforts are undertaken to seize opportunities for innovating the government's operations and services. To help realise the pledge of ten start-ups per year, the Ministry of Economic Affairs (EZ) will take part in the lead partnership initiative (see text under 'lead partnership').
Actively promote open data	The cabinet will indicate in the autumn how it intends to give an extra impulse to the open data efforts. The cooperation with business in the open geodata breakthrough project has produced three open data relay events in the areas of Agri&Food, Water and Renewable Energy during which the opportunities for the re-use of government data by the business sector were demonstrated. A fourth relay event focusing on Smart Cities will be held in the autumn. The Ministry of Economic Affairs (EZ) (in association with the Ministry of Education, Culture and Science, OCW) is also engaged in an EU programme dedicated to open access to research and innovation data. This programme is aimed at the joint exploration of the most appropriate definitions, principles and next steps in this field.

Action	Progress to date
<b>Access to knowledge</b>	
Valorisation and entrepreneurship education	Valorisation and entrepreneurship education are structurally embedded in the current performance commitments between the Ministry of Education, Culture and Science (OCW) and higher educational institutions.
IBO (Interdepartmental Policy Research) Policy will also look into valorisation.	Valorisation was one of the subjects included in the IBO research policy task. Valorisation is mentioned in the IBO report under the research policy objectives and plays a role in the performance commitments with universities. The training of young people is regarded as one of the most important knowledge valorisation tasks of a university. Valorisation was part of the questionnaire sent to researchers. Of the more than 400 respondents, 42% said that valorisation was an important objective of their organisation.
Reaction of Ministers/State Secretaries of Education, Culture and Science (OCW) and Economic Affairs (EZ) to the report on 'utilisation of patents on results of scientific research' of KNAW, VSNU, NFU and NWO	The reaction was sent to the House of Representatives on 7 July 2014 (Parliamentary Paper 29338, No 138). From the broad perspective of knowledge circulation, actions were defined for the five recommendations (peer review; robust mandate; transparency; identification of patentable inventions; national Technology Transfer Offices) from the report to utilise the identified opportunities.
Roundtable about the utilisation of IP in the Life Sciences & Health (LSH) top sector	The Ministry of Economic Affairs (EZ), in association with the Ministries of Health, Welfare and Sport (VWS) and Education, Culture and Science (OCW), organised a roundtable with the LSH top sector. The result is a new valorisation model with pilot within LSH.

Make publications and research data accessible	The Open Access Golden Road provides for this. The programme is being carried out at the Ministry of Education, Culture and Science (OCW) and is its responsibility. The Ministry of Economic Affairs (EZ) is involved in the entire process of open access publications. A baseline measurement will be performed and monitoring procedures will be set up.
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<b>Access to the Netherlands</b>	
Introduce a residence permit for start-ups and communicate this to a broad audience	The expectation is that foreign start-ups will be able to apply for a residence permit from 1 January 2015.
Acquisition of start-ups and fast growers	DutchBaseCamp (DBC) is supported for this purpose. DBC organised various network meetings in the Netherlands to share knowledge and connect networks. This has also led to the first 'acquisitions' for the Netherlands and new partnerships with foreign parties. In addition, the envisaged special start-ups envoy will play a role in putting the Netherlands on the map, thus making the Netherlands more attractive to this target group.
Offer relevant information on the Dutch business climate	The analysis of the provision of information to foreign start-ups is in its final stage. Following the De Vries motion (Parliamentary Paper No 32 637-143 dated 17-6-2014) the cabinet has promised to review the opportunities for arriving at public-private collaborations for offering appealing information to foreign start-ups. The Ministry of Economic Affairs (EZ) is in talks with the relevant parties in order to work out the concrete details of the approach and collaboration.

<b>Action</b>	<b>Progress update</b>
<b>Access to tax facilities</b>	
Adjust the 'Normal Salary Scheme'	The proposals from the StartUpNL Agenda regarding the normal salary have been assessed and discussed with the tax authorities (see Annex 2).
Assess the venture capital proposals from the StartupNL Agenda	The three proposals from the StartUpNL Agenda were assessed for effectiveness, ability to reach the target group and budgetary impact (see Annex 2).
Study whether the rules for payment of income tax on shares received as salary can be relaxed for employees	The option scheme will be more broadly and actively promoted as a solution to the problem that start-ups often encounter when paying out shares to staff.

<b>Access to each other</b>	
Strengthen ecosystem for ambitious entrepreneurship and improve international positioning	NLevator started in the spring of 2014. This initiative brings together growth entrepreneurs and stakeholders to jointly strengthen the ecosystem for ambitious entrepreneurship in the Netherlands and improve the Netherlands' international positioning. The aim is to connect existing ecosystems and networks (within sectors and regions) and make the available opportunities and facilities transparent for ambitious entrepreneurs. The Ministry of Economic Affairs (EZ) facilitated the start of NLevator and is one of the network partners. Meanwhile, the NLevator Foundation has been set up, parties have been connected, the first activities have been organised and the website has been launched.  Finally, actions are planned to create internationally appealing hubs.
Encourage youth entrepreneurship	The Youth Entrepreneurship Foundation (Stichting Jong Ondernemen) receives a total subsidy of €900,000 for three years to roll out the profession of entrepreneur on a wider scale throughout the educational journey – from primary to university level. The aim is to embed entrepreneurship and ambition into the mindset at a young age. The subsidy has two more academic years to go.
Renewed Social Innovation Roadmap	TNO Applied Research is working with the Ministry of Economic Affairs (EZ) to ascertain which partners are willing to jointly promote social innovation in the Netherlands. A roadmap for the 'reinforcement of Human Capital and social innovation' is currently being developed to create more attention for social innovation within the top sectors.
Annual Social Innovation Day	Social Innovation Day will be held on 18 November 2014. This will be a large-scale, high-visibility event held at several locations nationwide with the support of the Ministry of Economic Affairs (EZ).
Reconsider the doctoral graduate bonus system	The report of IBO scientific research was recently sent to the House of Representatives, setting out proposals for the size of the doctoral graduate bonus. The Research Vision Document, which is expected to be sent to the House of Representatives in autumn 2014, will contain the reaction to the IBO report.
Lead Customer/Partnership	26 June saw the kick-off of the Lead Partnership Initiative in the presence of a large number of corporates. The initiative connects and stimulates cooperation between corporates/government agencies and start-ups. An agreement between the initiative, large corporates and government agencies is currently on the drawing board.

<b>Action</b>	<b>Progress to date</b>
<b>Access to the world</b>	
Connecting start-up ecosystems in the Netherlands and facilitating their internationalisation, in the first instance vis-à-vis the US.	Separate missions (or 'bootcamps') are being organised specifically for start-ups. The purpose of these bootcamps is to equip ambitious entrepreneurs with unique knowledge and skills during a one-week period at a location with a unique ecosystem for entrepreneurship. For many years now, the Consulate General in San Francisco has been organising these bootcamps in cooperation with DutchBaseCamp and the innovation attaché network. A bootcamp for digital healthcare start-ups was held in September, to be followed by another bootcamp for start-ups from all sectors in October 2014. DutchBaseCamp has also set up a mentor network for start-ups, which was launched in September by Prime Minister Rutte in New York.
Special envoy start-ups	Acting on the suggestion in the StartUpNL Agenda to appoint an ambassador for start-ups, the cabinet will appoint a special start-ups envoy. The concrete details of the special start-ups envoy are currently being worked out.

<b>Entrepreneurship-friendly regulations</b>	
Study into obligation to continue paying sick employees	The study into the bottlenecks that employers encounter in respect of the obligation to continue paying wages to sick employees is expected to be sent to the House of Representatives by the Ministry of Social Affairs and Employment (SZW) at the end of 2014.
Effective bankruptcy laws	The Ministry of Security and Justice (V&J) is working hard on a review of the bankruptcy laws. The House of Representatives receives six-monthly updates on this. Progress is as scheduled.
Competition clause	The new Work and Security Act ( <i>Wet Werk en Zekerheid</i> ) as recently adopted by the

	Senate stipulates that fixed-term contracts may not contain a competition clause. An employer can only include a competition clause in a fixed-term contract if he indicates in the contract of employment why inclusion of this clause is of overriding importance for the operation of his business or service.
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## ANNEX 2

### Assessment of StartupNL Agenda Tax Proposals

#### 1. Venture Capital

##### Background

The StartupNL Agenda emphasises the importance of ensuring that innovative start-ups have good access to capital. SME finance is under pressure in these difficult economic times. To give start-ups better access to capital, the StartupNL Agenda sets out three tax proposals for enabling start-ups to raise equity capital from informal investors and business angels.

In its 'Ambitious Entrepreneurship' letter to the House of Representatives, the cabinet promised<sup>38</sup> to assess the three venture capital tax proposals mentioned in the Agenda on the basis of existing evaluations for:

- effectiveness;
- ability to reach the target audience; and
- budgetary impact.

A letter to the House of Representatives on the Supplementary SME Finance Action Plan of 8 July 2014 from the Ministers of Finance and Economic Affairs also deals at length with the theme of SME and innovative start-up finance. In conformity with the cabinet's promise, the three tax proposals are discussed below.

##### The tax proposals

The StartupNL Agenda proposes the following tax schemes to make it easier for start-ups to secure funding.

1. An exemption from the wealth tax levy (Box 3) for investments in venture capital up to €100,000
2. A venture capital scheme based on the former 'Tante Agaath' scheme (see explanation below)
3. A scheme similar to the Seed Enterprise Investment Scheme (SEIS scheme) in the UK

##### Description and assessment of the tax proposals

###### **Description of 'Tante Agaath' scheme and wealth tax (Box 3) exemption**

The 'Tante Agaath' scheme was a scheme for subordinated loans to starting entrepreneurs. The old 'Tante Agaath' scheme<sup>39</sup> provided for a wealth tax exemption (Box 3) up to an amount of about €50,000 and an income tax credit of 1.3% of the average direct investments.<sup>40</sup> Furthermore, cancelled subordinated debts could be deducted from income tax up to a maximum amount of €46,984 (until end of 2010). Under the Rutte I coalition agreement, this venture capital tax scheme was progressively revoked from 2011, with the final piece of the scheme ending effective from 2013. Proposal 1 thus covers one of the three components of the 'Tante Agaath' scheme and can therefore be assessed in combination with proposal 2. The budgetary impact of the venture capital scheme applicable until 2012 was €87 million in 2001 and only €19 million in 2010.

<sup>38</sup> Parliamentary Paper II 2013/14, 31 311, No 104.

<sup>39</sup> The official name for the scheme is 'durfkapitaalregeling' (venture capital scheme) effective from the Income Tax Act 2001. We use the term 'Tante Agaath' scheme because it is so well known.

<sup>40</sup> The 'indirect' variant of the 'Tante Agaath' scheme is not discussed here. It did not concern the direct provision of capital and was not effective. From 2003 this variant was slowly phased out because of the lack of providers of indirect capital.

### **Assessment**

The 'Tante Agaath' scheme was evaluated by the policy consultancy Bureau Bartels in 2005, as was the increase of the Box 3 wealth tax exemption for venture capital of about €100,000 as proposed in the StartupNL Agenda. The evaluation revealed that in nine out of ten cases the facility was applied in the family context. The most important user of the facility was the agricultural sector. About half of the investors were encouraged by the scheme to extend loans (or larger loans) to start-ups; the other half would have invested in the start-ups without this facility and can thus be regarded as deadweight loss. Many cases in the agricultural sector involved the financing of takeovers of existing companies and not the financing of new start-ups. The 'Tante Agaath' scheme was largely ignored by informal investors or business angels for two important reasons. First, the facility concerned subordinated loans up to a relatively low maximum amount, whereas this group of investors prefers to take larger private equity stakes in start-ups via shareholdings. Second, the interest rate was capped at the statutory interest rate, so there was no scope for charging a risk premium on top of that interest rate. The evaluation of Bureau Bartels revealed that increasing the exemption to about €100,000 would have no effect on the investment decision, while a third were unable to indicate what the effect would be. The evaluation also showed that new innovating businesses generally did not benefit from the scheme.

Based on the evaluation the cabinet has concluded that the reintroduction of the 'Tante Agaath' scheme or the introduction of a Box 3 wealth tax exemption for venture capital would not lead to an increase in capital for start-ups, or at most only to a limited degree. Start-ups are not always able to receive support in the form of direct loans, and must often resort to the issuance of shares in order to raise finance.

Moreover, business angels typically provide finance through a corporate vehicle and not as private individuals. Usually, therefore, the business angel's private limited investment company (*besloten vennootschap*) will buy shares in the start-up. In these situations a Box 3 wealth tax exemption offers no added value. The reintroduction of the 'Tante Agaath' scheme or a Box 3 exemption up to €100,000 is not expected to expand the financing opportunities for start-ups and is therefore likely to have only limited effect. This also leads to the conclusion that the scheme would not reach sufficient members of the target group.

### **Description of SEIS scheme**

In 2012 the United Kingdom launched a new venture capital scheme, *Seed Enterprise Investment Scheme* (SEIS), which is specifically targeted at start-ups. To qualify, the company must have started up less than two years before issuing the shares. The company may not have more than 24 employees and the assets may not exceed about €250,000. The SEIS scheme is only available to investors who participate via shares. An individual investor's shareholding may not exceed 30% of the shares. According to estimates of UK policymakers, between a third and half of the SEIS investors are an informal investor or business angel. In addition, investors receive income tax relief (comparable with the Dutch tax credit) of 50% of the investment (up to a maximum of €125,000). In other words, investors can deduct half of their investment from their payable income tax up to a maximum tax relief amount of €62,500. The tax credit available under the Dutch venture capital scheme was capped at 1.3% of €55,145 (in 2010, the last year that the tax credit was 1.3%), working out at a tax credit of €717.

Furthermore, income tax relief is available for losses up to the invested amount. There is also an exemption from capital gains tax for any profits realised on the sale of the shares (a rate of 18% or 28% in the UK; for shareholdings larger than 5% comparable with the Dutch substantial interest levy (Box 2) of 25%). Finally, investors were not required to pay capital gains tax in 2012/2013 on gains from other investments if these were reinvested in companies making use of the SEIS scheme. In 2013/2014 the SEIS scheme was extended and this latter exemption is now available for half of the capital gains. After the introduction in 2012, start-ups using SEIS had raised more than €100 million by November 2013. A total of 1,100 businesses have benefited from SEIS, i.e.



19 per week on average. Start-ups raise an average of €90,000 with share issues under the SEIS scheme.<sup>41</sup>

### **Assessment**

The UK has not yet performed a quantitative evaluation of the effects of the SEIS scheme. Talks with advisers, start-ups and policymakers in the UK reveal that start-ups are often able to raise equity, but this need not necessarily be a consequence of the SEIS scheme. Another aspect of the SEIS scheme is that it enables start-ups to be selective in their choice of investor. They will grant the tax advantage to the investor that offers them the most attractive proposition. The SEIS scheme helps to create a start-up-friendly business climate, an effect that must be viewed in an international context. This is also confirmed in talks with the start-up community in Amsterdam and London, which indicate that the existence of the SEIS scheme has a positive effect on the UK start-up business climate, particularly in London. It is also important to recognise that the community of informal investors and business angels in London differs from that in the rest of the UK and the Netherlands. The history of the SEIS is still too short to assess its effectiveness. The scheme's effect on investments in start-ups is still unknown. The scheme has, however, been designed in such a manner that it reaches the correct target group (start-ups). The budgetary impact of such a scheme in the Netherlands is difficult to predict and depends strongly on the selected parameters. The income tax systems of the UK and the Netherlands can also not be compared one on one. The UK, for instance, does not have a closed box system or a substantial interest levy. But it is clear that SEIS is an extremely generous scheme compared to the old Dutch venture capital scheme and could have a substantially greater budgetary impact than the old 'Tante Agaath' scheme, depending of course on the exact tax advantage granted to those investing in the scheme. The UK estimates the budgetary impact of the SEIS scheme at €30 million for the budget year from 1 April 2014 to 1 April 2015.<sup>42</sup> The estimated cost for the first year, with the more generous exemption for capital gains from other investments that are reinvested in an SEIS entity, was €62.5 million.

### **Conclusion**

The first two tax proposals from the StartupNL Agenda were assessed on the basis of the existing evaluation for effectiveness, ability to reach the target group and budgetary impact. It was found that both a wealth tax exemption up to €100,000 and a venture capital scheme (the former 'Tante Agaath' scheme) would not lead to an increase in start-up investments via shareholdings by informal investors or business angels. There are no grounds to assume that the reasons for revoking the scheme would no longer apply if this exemption or the 'Tante Agaath' scheme were reintroduced.

The third proposal, a scheme based on the SEIS scheme, would probably be more effective in reaching the target group than the first two proposals. The UK has not yet performed a quantitative evaluation of the effects of the SEIS scheme, so a similar evaluation cannot be made for the Dutch situation. The cabinet is following these developments in the UK very closely in order to ensure that the Netherlands retains an attractive business climate for start-ups. However, even without a quantitative evaluation, it can be said that the SEIS scheme is extremely generous in terms of the granted tax incentive per investment.

Regarding the three aforementioned tax measures, the cabinet notes that partly in view of the Broad Agenda, the tax authorities are currently reluctant to introduce new tax instruments, particularly facilities (or comparable facilities) that were recently abolished. Moreover, the cabinet points to the existing non-tax schemes aimed at giving start-ups (and other businesses) improved access to capital, as communicated in its Letter to Parliament on the policy for ambitious entrepreneurship of 17 March 2014. The cabinet clearly sees this theme as an important part of its

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<sup>41</sup> <https://www.gov.uk/government/news/government-incentives-help-1100-companies-lift-off>

<sup>42</sup> Autumn Statement 2011 Policy Costings HM Treasury, [http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/2011budget\\_policycostings.pdf](http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/2011budget_policycostings.pdf)

mission, as is evident from the Letter to Parliament about the Supplementary SME Finance Action Plan of 8 July 2014 from the Ministers of Finance and Economic Affairs which sets out a large number of measures.

## 2. Normal Salary Scheme

The cabinet has given consideration to whether a separate Normal Salary Scheme (*gebruikelijkloongregeling*) for innovative start-ups is desirable. This was done in connection with the promise<sup>43</sup> to take the proposals from the StartupNL Agenda (hereinafter: Agenda)<sup>44</sup> on board when making adjustments to the Normal Salary Scheme. According to the Agenda, the minimum required director/major shareholder salary of €43,000 (amount 2013) to qualify for the scheme is often higher than the salary that the start-up is able to pay. One possible solution according to the Agenda would be to set the director/major shareholder salary of an innovating start-up at the minimum wage for the first two years. Another problem identified in the Agenda is that the director/major shareholder salary is not allowed to be set at a lower level than the salary of the best-earning other employee, even though it is not unusual for the current generation of entrepreneurs to earn less during the start-up phase of their company than some of the employees (e.g. specialised highly-trained knowledge workers). The Agenda therefore proposes to seek a different criterion for determining a market-oriented salary.

The cabinet shares the principle set out in the Agenda that the Normal Salary Scheme should be sufficiently flexible to enable start-ups to set a salary that can be reasonably deemed to be consistent with commercial practice. The Normal Salary Scheme offers various options for setting the start-up owner's salary at a lower amount than the standard amount of €44,000 (amount 2014) or the amount of the best-earning other employee. As indicated above, the start-up owner's salary can be set at a lower amount if this is demonstrably consistent with commercial practice. As with other director/major shareholders, therefore, the salary of the start-up owner can be set at an amount lower than €44,000 (amount 2014) or lower than the salary of the best-earning employee. If, for instance, the start-up employs specialised highly-trained knowledge workers, it will be easier to justify that the salary of the best-earning other employee is higher.

Apart from the options already available under the standard tax regulations, start-ups can also make advance arrangements with the tax authorities to gain certainty about the acceptable salary for tax purposes. The tax authorities can take account of the start-up's financial circumstances in this connection. In the case of high investments or a low cash flow in the initial phase, it will be fairly easy to demonstrate that a relatively low salary is consistent with normal commercial practice. Even if no advance arrangements are made, the tax authorities can still take account of the start-up's financial circumstances. All in all, therefore, the determination of the normal salary for starters should not lead to any problems. The cabinet thus sees no need for a separate Normal Salary Scheme for start-ups. However, the cabinet will provide more information on the Normal Salary Scheme and the options available under this scheme, such as the possibility of setting the salary at a lower amount than the standard amount under certain circumstances (e.g. with start-ups). The cabinet will therefore do more to provide information on the Normal Salary Scheme, e.g. at meetings with start-ups and on [www.ondernemersplein.nl](http://www.ondernemersplein.nl).

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<sup>43</sup> Parliamentary Paper II 2013/14, 31 311, No 104.

<sup>44</sup> <http://startupnl.nl>.

## ANNEX 3

### Assessment Framework for Risk Guarantee Schemes: 'beauty contest' for new SME finance providers

#### Introduction

The SME Finance Action Plan provides for a number of measures to improve the financing of the SME sector, which the House of Representatives was informed about by way of a letter dated 8 July. These measures focus on reinforcing the supply of venture capital within the SME sector, broadening the range of finance options and improving the profitability of SME finance. The present measure is designed to broaden the range of financing parties.

Some existing SME guarantee schemes are underutilised. It has been agreed that this unused capacity can be employed for the new measures (guarantees) belonging to the supplementary action plan. The unused guarantee capacity for instruments from the Ministry of Economic Affairs for this and next year is expected to run to about €1 billion. Of this amount, €400 million is earmarked in advance to broaden the range of financing options. This specific amount of funding will be distributed by means of a 'beauty contest' that will be announced via a publication in the Government Gazette. The entries will be assessed together with an external advisory committee to decide whether one or several initiatives can be supported.

In view of the small number and diversity of the parties, it was decided to provide funding via a 'beauty contest' instead of a scheme so that the available guarantee capacity can be deployed as effectively as possible. Within this assessment framework, insight is provided, in conformity with the guarantee framework, into the problem formulation, risks and risk management as well as the definition of the criteria and qualifying conditions for this 'beauty contest'.

The 'beauty contest' entails that businesses and organisations will be invited via a publication in the Government Gazette and other media to submit viable and concrete guarantee proposals for improving the financing of the SME sector. The Netherlands Enterprise Agency (RVO.nl) will perform an initial assessment. Once the information is complete, the proposals will be assessed by a committee of external experts to determine whether the proposals are of sufficient quality and fit within the policy objectives. They will then order the proposals according to quality, after which the relevant amount from the available budget of €400 million will be earmarked for each of the proposals in the correct order. Next, talks will be held with the selected parties about the possibility of entering into a guarantee agreement which, before being concluded with the parties, will be tested at the European Commission for possible state aid aspects.<sup>45</sup> In addition, in view of the complex risks, the risk profile and the accompanying premium for draft guarantee agreements will be assessed by an external party (a 'second opinion').

#### Problem formulation

##### *1. What problem prompted the policy?*

As noted in the Supplementary SME Finance Action Plan, the Dutch SME sector relies heavily on banks for external financing and alternative financing sources are still too limited in scale to supplement bank lending. The cabinet considers it a matter of great importance that sufficient financing is available for SMEs with a healthy business plan, particularly at a time of cautious economic recovery. A number of new providers of SME finance are being developed, but do not yet have a sufficiently strong track record to attract potential investors (funders). The cabinet intends to offer these funders a guarantee so that the new providers of SME finance can get off the ground. The guarantees must carry a market-oriented premium and they must also comply with all other European state aid rules. The cabinet reckons that a guarantee budget up to €400 million will be necessary to start up initiatives that satisfy these criteria. It is estimated that this will enable a minimum of €400 million of new financing to reach the market.

#### Role of the government

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<sup>45</sup> The European state aid framework for guarantees requires, among other things, that the borrower is not facing financial difficulties, the extent of the guarantee can be properly measured when it is granted, the guarantee does not cover more than 80% of the outstanding loan or other financial obligation and a market-oriented premium is paid; otherwise the guarantees will be treated as state aid.

*2. Why is national government taking responsibility for solving the problem and why is the responsibility being placed at national instead of decentralised level?*

The cabinet considers it a matter of great importance that sufficient financing is available for SMEs with a healthy business plan, particularly at a time of cautious economic recovery. New providers of SME funding can contribute towards this; hence the cabinet's commitment to encourage the development of viable new providers of SME funding.

*3. Is the scheme designed a) to compensate risks that cannot be covered in the market and/or b) to achieve optimal effectiveness gains?*

The guarantee covers a risk that investors are not yet prepared to take. A guarantee with a market-oriented premium exactly addresses the identified bottleneck, and is intended to give investors an impulse for funding this kind of initiative.

*4. Is the obligation explicitly or implicitly laid down by existing guarantees/laws/schemes?*

No. The existing guarantee schemes, such as the Government-Guaranteed SME Loan Scheme (*Borgstellingsregeling MKB*), address specific SME financing issues. This scheme is designed to encourage the development of viable new providers of SME funding.

## **Risks and risk management**

*5. What are the risks of the scheme?*

*a. What is the total risk on an annual basis? Does the scheme have an overall ceiling?*

The guarantees are provided on a one-off basis and the earmarked guarantee budget at the start of the scheme is a maximum of €400 million. The guarantee is provided once and the size of the guarantee decreases in line with the size of the underlying SME loans.

*b. What are the risks versus the returns of the scheme? Is the possible effectiveness of the risk guarantee scheme known?*

In conformity with the cabinet policy, a market-oriented premium is a hard condition that must be met. The guarantee premium that will be charged to the financier will include full compensation for risks/expected losses, implementing costs and tied-up capital. All relevant aspects of the business case will be taken on board in the calculation of this premium. The size of the premium will be determined in conformity with the guarantee notice of the European Commission. An independent specialised party will be asked to give a second opinion on the market-oriented premium.

To assure the effectiveness of the 'beauty contest', the applications must meet a number of hard qualifying conditions: the application must demonstrably encourage a broadening of the SME finance options; the guarantee must carry a market-oriented premium and comply with the state aid framework; and the external committee must examine the business case.

*c. What are the estimated risks regarding the aspects of probability, impact, duration of exposure and degree of control?*

The new providers will supply finance to SMEs: the average size of SME loans will probably not exceed €1 million, which means that loans could be extended to at least 400 businesses. The risks form an explicit part of the assessment of the guarantee proposals of participants in the 'beauty contest' by the Ministry of Economic Affairs (EZ) and the group of external experts. Proposals with lower risks for the State will be preferred to proposals with higher risks, taking account of the extent of the proposal's positive impact on SME financing. In addition, a reserve fund will be formed from the paid guarantee premiums to cover any future loss claims. If the reserve has not yet been fully formed when loss claims are submitted, this temporary problem can be solved by 'borrowing' from the existing reserves of the schemes whose budget is being used for this new guarantee scheme.

Regarding the duration of the exposure: the guarantee will be provided once and the size of the guarantee will decrease in line with the reduction of the underlying SME loans. The expected loan term will form part of the distribution criteria. In principle the maximum period is fifteen years, breaking down into an investment period of three years and a maximum duration of the loans to be extended by the new SME financier of twelve years (corresponding with the maximum of the Government-Guaranteed SME Loan Scheme).

*6. What risk management and risk mitigation measures will be taken?*

The most important measures in this respect are the application of a market-oriented premium, an independent second opinion of the risks and premium, co-financing by the SME financier and a detailed prior assessment by a committee of external experts. In addition, arrangements about monitoring must be made for each financier, tailored to their specific situation.

*7. Does the selected institutional embedment give the minister sufficient control over the risks, even if the scheme is implemented at a distance?*

Any guarantee agreement to be concluded will contain provisions ensuring that the State retains the strongest possible control over the risks. Depending on the specific situation, arrangements will be included to limit the risks, for instance by making the total guarantee amount available in increments based on milestones. The agreement between the State and the parties will lay down how the latter must report during the term of the guarantee and what conditions will apply.

## **Design**

*8. Does the scheme offer added value compared to a cash flow or subsidy?*

As indicated above, the guarantee in question covers a risk that investors are not prepared to take at the present moment. A market-oriented guarantee therefore exactly addresses the identified bottleneck by giving investors an extra incentive to fund this type of initiative. A non-refundable subsidy (cash flow) is not necessary because the funding can be provided in conformity with market conditions.

*9. What premium is proposed and how much will be charged to the end user? What form will the budget reserve take?*

The market-oriented premium will differ from case to case, depending on the risk run by the State. The premium will be passed on to the ultimate beneficiary in the loan charges. The premium will be paid into a budget reserve, which can be used to cover any possible future loss claims.

*10. Will a sunset clause be applied?*

The guarantees will be provided on a once-only basis and the size of the guarantee will decrease in line with the reduction of the underlying SME loans.

*11. What are the implementing costs of the scheme?*

The implementing costs are equal to the manpower used to conclude the guarantee agreement, the monitoring costs and, if the guarantee is invoked, the management costs. As only a limited number of parties is expected to invoke the guarantee, the costs will be limited. The current projection is about €500,000 over the duration of the extended guarantees.

*12. How is the necessary information obtained for the periodic and final evaluation of the scheme?*

Arrangements about the supply of information will be made in the guarantee agreement with all guarantee recipients. The option currently under consideration is a half-yearly report during the investment period and a yearly report during the remaining term of the guarantee. As well as information about the guarantee itself, the report will also provide insight into the results of the underlying SME loans that were entered into.