European Commission

EMN European Migration Network INFORM

Attracting and retaining foreign startup founders

1 Introduction

European leaders at all levels are facing a number of **labour market challenges**, from ageing population, the sustainability of welfare and pension systems to companies' growing struggles to find skilled workforce. Migration is increasingly viewed as a possible way to tackle these problems, especially the arrival of skilled persons from third countries. European Migration Network's (EMN) Annual Conference, entitled **'The EU in the Global Race for Talents: Challenges and Solutions in Strengthening the EU's Competitiveness'**, sought to tackle these issues in Tallinn on 21-22 September, 2017.

Many EU Member States (MS) are interested in attracting foreign entrepreneurs, especially startup founders. The workshop strand on 'Attracting and retaining foreign startup founders' reviewed numerous startup schemes currently in place in Europe and explored the possibilities to improve the attractiveness of the region in future. The aim of such special schemes is to attract startups and potential founders in order to **promote the development of innovative entrepreneurial ecosystems** in Europe, which could facilitate both **job creation** and **innovation**. In other words, the hope is that **foreign startup founders could drive economic growth locally**.

Session I of this workshop focused on measures in place for attracting startup founders, while **Session II** addressed the question of retention by trying to understand what makes – and keeps – a region attractive for startup founders. The workshop was organized by the **Estonian Ministry of the Interior** and **Startup Estonia** and aimed at the startup community and policy makers alike. Speakers included representatives of the European Commission, Startup Genome[1], different MS and startup entrepreneurs themselves.

2 Key points to note

- While there currently is no EU-wide startup visa policy in place, recent years have seen **a proliferation of startup schemes** across MS offering various incentives for startup entrepreneurs from third countries.
- The common aim of startup schemes is to **develop entrepreneurial ecosystems**, **fuel economic growth** and **innovation**, and make the country more **competitive in the globalised knowledge economy**.
- Although the admission conditions vary across MS, having **an innovative idea** is a common condition to all startup schemes. Yet MS define 'innovation' in different ways.

[1] Startup Genome is an organization that works with governments to accelerate the growth of their startup ecosystems through evidence-based policymaking.

- Yet, **MS with no special regulation** for startups **can also be successful** in attracting foreign entrepreneurs, especially if they have a reputation for being a tech hub.
- **Wider promotion of startup schemes is important**. As such schemes are relatively new in most countries, many possible applicants are unaware of the existing possibilities.
- Measures for attracting and retaining startup founders should be part of **broader efforts in fostering innovation and entrepreneurial ecosystems in the EU**.
- Third-country national (TCN) founders often choose to relocate to **places where they think they have the highest likelihood of succeeding.** This means that besides migration policies, **the general business environment** matters.
- Starting a business in an unfamiliar business environment creates additional risks for entrepreneurs. A **dialogue** with the private sector and founders themselves is essential to design a system that would be attractive for entrepreneurs and would help them to **minimise any additional risks caused by relocation**.

3 Summary of Session I: Attraction of foreign startup founders

A number **of new startup hubs and ecosystems are developing** fast across the EU, but they **need a critical mass of startups, entrepreneurs and investors** to fuel their growth. As a result, many countries are actively trying to stand out by offering various incentives to attract foreign startup entrepreneurs that could drive such growth, ranging from funding schemes and tax reductions to fast-track startup visas.

The first workshop session begun by reviewing the different startup schemes currently in place in the EU MS, addressing both their successes and challenges, and exploring what else can be done to attract foreign founders.

3.1 EMN AD-HOC QUERY RESULTS

A representative of the **Estonian Ministry of the Interior** presented an overview of the the outcomes of EMN ad-hoc query on ´**Startup policies for third-country nationals**´[2], which indicated that there are currently **12 MS** (AT, CY, DK, EE, ES, FR, IE, IT, LV, LT, NL and UK) with **startup schemes for founders**. Out of those states, **three MS** (CY, EE, FR) have also **schemes intended for startup employees**. 14 MS have no specific schemes and **three MS** (FI, HU, PT) are **currently developing new startup schemes**.

The **minimal requirements for qualifying** as a startup founder **differ significantly between MS**. When it comes to **investment requirements**, five MS (AT, CY, IE, IT and UK) require the startup to have raised investments that amount to at least 50 000 euros; three other MS (EE, FR, NL) require that founders would have an income or savings of certain amount, whereas three MS (LT, ES, DK), instead, had other types of criteria in place (e.g. enough resources to achieve the set business goal or for the startup to be able to sustain itself). Latvia requires startup founders to have both investments proof of sufficient income of a specified amount.

In addition to financial requirements, MS generally also had other requirements for an enterprise to be qualified as a startup. These included among other things:

- having a **scalable** business model
- being a **newly founded** business
- having **high/global growth potential**
- having a **business plan**
- aiming to **create jobs**
- being **registered** or having the **head-quarters in the MS.**

Moreover, all startup schemes required the business to be ´**innovative**´ and it was presumed that the startup would create additional value through implementing new ideas, business models or technologies.

[2] The full version of the EMN AHQ on startup policies for third-country nationals (part 1) is available at: http://www.emn.fi/files/1711/2017.1200_-_ahq_on_start-up_policies_for_third-country_nationals_part_1.pdf and part 2 available at: http://www.emn.fi/files/1712/2017.1201_-_ahq_on_start-up_policies_for_third-country_nationals_part_2.pdf . Additional information about those countries that did not participate in the AHQ (e.g. DK) was provided by the Estonian Ministry of the Interior.

While most MS associate startups with tech or even intellectual property sectors, some countries had **further specifications for sectors**. **Lithuania**, for instance, requires that the startup must operate in one of the following fields - Nano-technologies, Biotechnologies, Information Technologies, Mechatronics, Laser Technologies or Electronics.

MS also vary in the ways in which authorities evaluate startup applications. In most cases, **the startup evaluation consisted of several steps and involved several actors**. Typically, the first stage involved assessing whether the business qualifies as a startup. This evaluation was generally conducted by a committee comprised of both public and private sector representatives. After determining that the enterprise qualifies, applicants are in the second stage invited to submit their actual visa or a residence permit application.

The **processing time of applications** usually depends on the timetable of the committee and is not necessarily set in law (Table 3). However, it is **between 3 and 12 weeks** depending on the MS. For example, in Estonia, it takes ten days to get the startup committee's assessment and four weeks for the visa. In addition, **the validity period differs** across MS, ranging from one up to five years. The average **acceptance rate** was reported to be between **30-40%**.

3.2 EXPERIENCE OF (MEMBER) STATES WITH A STARTUP SCHEME

Besides offering an overview of the schemes in place in EU MS, Session I also introduced the experience and practices of two MS, who have a working startup scheme in place.

The Netherlands have had a startup scheme in place since 1 January 2015. **A representative of the Dutch Ministry of Security and Justice** noted that although the requirements for startups are similar as in many other MS, the distinctive and most important part of the Dutch scheme is the obligation to have a local or international **facilitator**. The role of a facilitator is to help and advise a startup. They are required to have at least two years of experience in dealing with startups and a solid financial base.

The Netherlands, however, has had some difficulties with the scheme. Firstly, instead of attracting new founders to the country, the scheme was often used by individuals, who had been legally in the country with either a tourist or student visa, highlighting **the problems with the existing immigration system in maximising the potential of individuals already in the country**.

Secondly, the initial startup legislation was soon found not to be supportive enough for TCN founders in the Netherlands. The salary threshold was often too high for startups and the validity period of a startup visa too short[3] (for comparison, see Table 4).

After a thorough dialogue with stakeholders, the government decided to make amendments and make it easier to **prolong the permit** and simplify the application process. Soon founders will be able to more easily **apply** and **register digitally** at the Chamber of Commerce. In addition, the goal is to make it easier for Dutch startups to hire employees from abroad.

The Dutch example shows the importance of having a **direct dialogue** with stakeholders not only in the beginning of implementing such schemes, but also in the following stages.

In the case of Spain, according to **a representative of the Ministry of Employment and Social Security**, the startup scheme is part of broader efforts to foster innovation and economic growth and attracting foreign talents. Established in 2013, Spain's entrepreneurship visa is one of the earliest examples of special schemes in Europe that incorporated measures to attract startup founders alongside other entrepreneurs.[4] Early evaluations show a strong positive effect on the economy. The Spanish government has estimated that the scheme has resulted in about 34,500 new Spanish jobs being created as a result and about 2.5 billion euros invested into the economy (Table 1).

[3] The startup visa in the Netherlands is valid for one year, after which the startup founder would need to apply through the general scheme for entrepreneurs, where the requirements are more stringent and numerous.
[4] Residence visas Law 14/2013 available at: http://www.boe.es/boe/dias/2013/09/28/pdfs/BOE-A-2013-10074.pdf

Figure 1. Key considerations of the Spanish startup scheme

Source: ES EMN NCP

The main focus in Spain has been, from the beginning, on assessing the business plan - its innovativeness and effectiveness. The government wanted entrepreneurship visa to be a one-stop scheme that would be flexible, streamlined, offer a full entry to the territory, oriented towards business experts, but also offer an access to family members (Fig 1. For comparison, see also Table 5). The application process in Spain is **not digital**, but it is **straightforward and streamlined –** in most cases the decision will come and the foreign founder can enjoy the benefits within a month.

It was noted however, that the **availability of information about the scheme has been an issue**. In order to attract TCN founders and convince them to start their businesses in Spain or elsewhere in Europe, there is a need to provide relevant information, but at times the information available does not address the concerns of business owners or it just does not reach the right people. Thus it is essential to invest in promoting such schemes and having a dialogue with the business community to determine what sort of information they need.

3.3 EXPERIENCE OF (MEMBER) STATES WITH NO PARTICULAR STARTUP SCHEME IN PLACE

The success of some MS has encouraged others to introduce their own schemes. A representative of the **Finnish Ministry of Interior** stated that although Finland does not yet have a startup scheme, the proposal for startup visa and residence permit is already in the Parliament and it is likely that Finland will also be launching a specific residence permit in the near future.

Many MS, however, have decided against launching startup schemes. According to a representative of the **German Foreign Service/ Federal Ministry of the Interior**, Germany has decided not to develop a scheme, because they believe that **the current system is able to address the needs of entrepreneurs**. Moreover, the German representative argued against involving the public sector too closely in assessing the entrepreneurial potential of individuals and, instead, leaving it to the private sector. Germany currently relies on existing business structures like the chambers of commerce and industry to evaluate the business potential of foreign companies.

A representative of the **Czech Republic's Investment and Business Development Agency** explained that in the Czech Republic, there is a discussion about launching a fast-track procedure for entrepreneurs wishing to join Czech incubators and accelerators, but it would not be a special startup scheme in itself. For some applicants, it may take up to six months to receive a residence permit, but the fast-track system would bring it down to 2-3 months.

3.4 EXPERIENCES OF STARTUP ENTRE-PRENEURS IN ESTONIA

The session also sought to understand the specific **reasons behind TCN founders' decisions to found their company in the EU** and, more specifically, by using the Estonian startup scheme. The founders present noted that these decisions are determined by a number of personal considerations, but highlighted the importance of **additional measures** in Estonia that helped them to **minimise business risks**, **the inclusive nature of the scheme** (besides founders, it also includes startup employees) and a **reputation as a startup hub**.

A startup founder present at the workshop had been looking for a possibility to start a business in different countries since 2015, but found that **most regulations were not startup friendly nor transparent**.

The choice of Estonia was linked to the **e-residency programme** that allowed **him to familiarise with the business environment in Estonia and the EU,** and to be better prepared before applying for startup scheme. Starting a business in an unfamiliar business environment creates additional risks, which this extra time to learn about the new context helped to minimise.

Another participant, founder of a greentech startup, also appreciated **the possibility for startups to hire TCN employees**, which differentiated Estonia from many other EU schemes.

Another startup founder present at the workshop was interested in Estonia due to its thriving tech community and a reputation as a startup hub. As an entrepreneur from a third country, he had limited business connections in Europe, which is why the access to the startup circles was essential. Moreover, he was also interested in the possibility to **collaborate with EU entrepreneurs** and **having an access to the EU market**.

Startup scheme in Estonia

Target group:

- For foreign founders to launch and run a startup in Estonia.
- For Estonian startups to employ talents from third countries.

A startup is defined as a company that is setting up its operations, whose goal is to launch an innovative and scalable business model with great global growth potential that will contribute to the development of Estonian business environment. For evaluation, applications are submitted electronically to a startup committee (no state fee). Startups are exempt from investment and salary requirements.

Startup founders may be issued:

- Visa for up to 12 months, prolonged for another 6 months.
- Residence permit for up to 5 years, extendable for 5-year periods.

While the launch of the scheme in Estonia has been an overall success, it was also noted that there have also been some challenges that the Estonian government did not foresee. Firstly, the interest in the programme has been greater than was anticipated (200 applications within six months), putting a lot of **strain on the system**.
Secondly, the allocated **budget did not support the high ambitions**. Although the aim was to keep the system as simple and convenient as possible, there was for instance no budget for developing a web platform. Luckily the problem was solved by the Estonian startup community itself, who developed the necessary platform to attract new startups and diversify the local startup ecosystem.

4 Summary of Session II: Retaining foreign startup founders

While the first session focused on attraction, the second part of the workshop tried to understand what are the factors that are critical for building a supportive ecosystem for startups to thrive after they have relocated. Moreover, startup entrepreneurs are always on the move, looking for the best surroundings to grow their business, which raises the question whether the EU should support the mobility of startup founders across the MS or, instead, tie them down and limit their movements.

4.1 WHY FOUNDERS PREFER SOME STARTUP ECOSYSTEMS TO OTHERS

This session offered insights from the research carried out by Startup Genome. **Startup Genome** was established to understand why founders remain in some startup ecosystems and leave others. Startup Genome is an organization that works with governments to **accelerate the growth of their startup ecosystems through evidence-based policymaking**. Based on the voice of 10,000+ entrepreneurs, 300 local partners and more than 40 city members, Startup Genome benchmarks startup ecosystems, combining objective data analysis with input from founders, to provide knowledge that empowers regions to drive innovation and attract startup communities.

Two representatives from Startup Genome stressed that while startup schemes send a positive signal to founders, in reality the data suggests that startup founders do not move to a new country, because of its immigration policy, but instead **choose places where they think they have the highest likelihood of succeeding doing business.**

In their interactions with different startup schemes, they have come to a conclusion that **you cannot compete with everyone on everything**. Instead, countries should focus on specific groups and startups in order to maximise the return on investment into these schemes meant to attract founders.

The key steps in devising a strategy involve identifying a sub-sector, where your region stands out compared to other startup ecosystems in the world. Then identifying the key reasons why startups move there, and assessing based on that which startups are most likely to move to your ecosystem in future (Fig 3. See also Figure 2).

Figure 2. Top three reasons why startups choose a specific European city

London	1. Better sales & marketing opportunities (31%) 2. Better partnership opportunities (15%) 3. Better place to scale startup to a unicorn (8%)
Berlin	1. Lower cost of living (16%) 2. Easier to get funding (14%) 3. Better place to scale startup to a unicorn (10%)
Amsterdam	1. Better partnership opportunities (24%) 2. Better place to scale startup to a unicorn (10%) 3. Easier to find good technical employees (9%)

Source: Startup Genome

Startup Genome stressed that the ability to attract and retain TCN founders comes down to **the general performance of the startup ecosystem**. It is thus important to build local success stories to make the ecosystem better and more competitive for all startup founders – local and foreign. **Big exits and success stories are critical for putting an ecosystem in a global map.**

What would make a startup founder choose one country over the other?

- How supportive is the educational system?
- How easy is it to get information about the local system?
- How well do locals speak English?
- What are the employment laws – how easy is it to employ (and dismiss) people?
- How complicated is the taxation system?
- What services are available and offered by the authorities?
- Is it possible for a foreigner to open a bank account and is the banking system digitalized?
- How fast can you deal with bureaucracy and what is the level of corruption?

Source: EMN Workshop in Tallinn[5]

4.2 HOW TO RETAIN STARTUP FOUNDERS

Another important issue when it comes to **startup retention** is the global and mobile nature of startups and their founders. This issue was addressed by a panel discussion led by a founder and CEO of a hardware accelerator and also one of the members of the Estonian Startup Committee.

The panel also included a representative from the European Commission, a startup founder and a representative from Startup Estonia.

The panel noted that when it comes to addressing **startup mobility**, it is important to acknowledge the state of maturity of the company as this can determine the reasons behind relocating.

Most startups are founded by a single person or a small team, so the initial location is often tied to that individual's networks, migratory routes or merely emotions. One of the panel speakers reflected from his own experience as a founder that the choice of choosing a country, where to start a business has much more to do with **emotion** than we would dare to admit publicly. We choose a location that meets our values and needs at a specific time and thus in many cases can be ´random´.

Yet another speaker expressed that while this might be the case in the early stages, later on other aspects start to play a more significant role. Firstly, a founder has to **ensure a product-market match**. At some point in the startup life-cycle, the **market will become a trigger to move**. Secondly, in order to scale up, similarly to all businesses, startups need a pool of talented employees to tap into. Thirdly, startups need **investors.** While initially local angel investors might be enough, soon the local investor pool might exhaust itself and startups need to seek out new investors. Therefore, when it comes to choosing a location, **emotional whims soon become rational deliberations for many founders.**

During the session, it was also noted that **relocating a company is not necessarily a bad thing.** Although governments often try to find new ways to keep startups in the country, this can hinder their growth, and often when companies move abroad, they retain a base also in their initial location. This is the experience with many successful Estonian startups (e.g., Skype and Transferwise), who have moved their HQs abroad, yet maintain offices also in Estonia.

[5] Brainstorming session with start-up founders.

Annex 1. Tables and figures

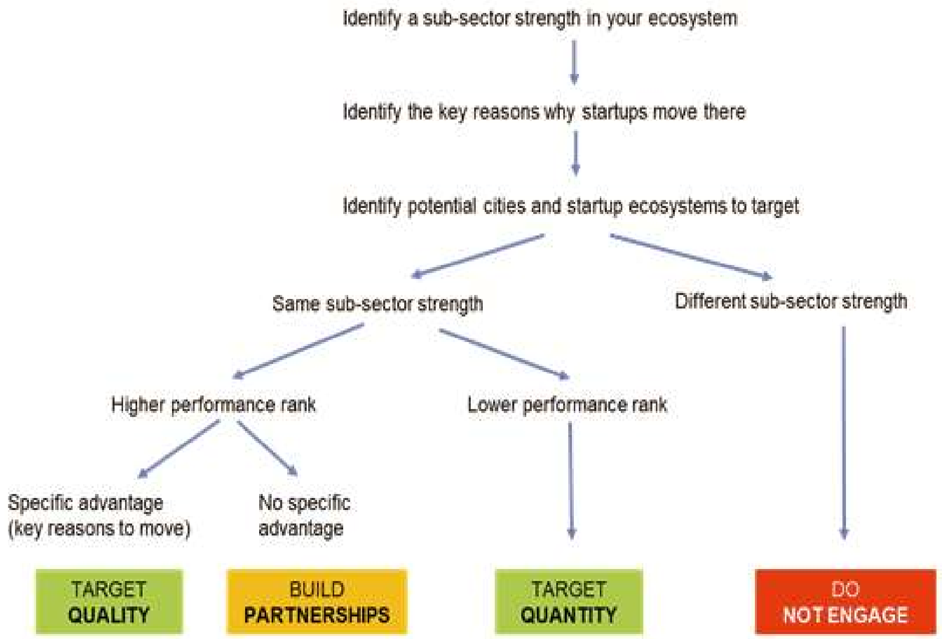
Annex 1 provides an overview of some of the tables and figures used by speakers at startup workshop at the European Migration Network's (EMN) Annual Conference 'The EU in the Global Race for Talents: Challenges and Solutions in Strengthening the EU's Competitiveness'.

Table 1. The economic impact of Act 12/2013[6] of entrepreneurs in Spain

THE ECONOMIC IMPACT OF ACT 14/2013 28/09/2013 – 28/02/2017			
CATEGORIES	**TOTAL INVESTMENTS (€)**	**DIRECT JOBS**	**INDIRECT JOBS per visa**
INVESTORS	2,275,543,509	7,415	N/A
ENTREPRENEURS	251,389,278	4,912	N/A
HIGHLY-QUALIFIED PROFESSIONALS	N/A	5,668	N/A
RESEARCHERS	N/A	1,568	N/A
INTRA-CORPORATE TRANSFEREES	N/A	3,784	N/A
TOTAL	**2,526,932,787**	**23,347**	**11,204**

Source: ES EMN NCP

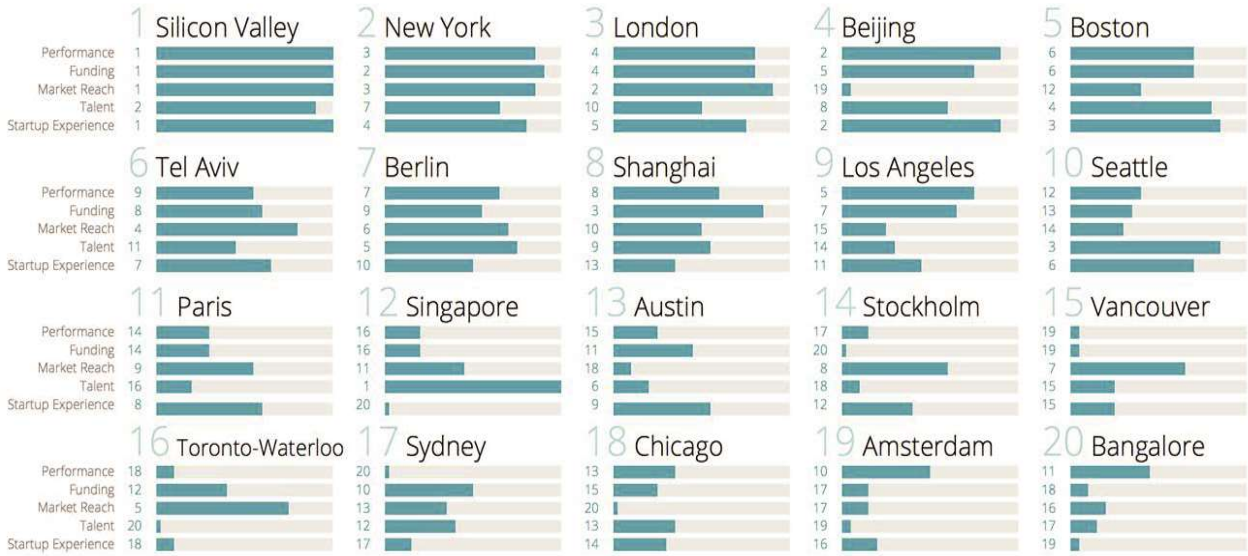
Figure 3. Necessary steps for determining which startups to target and how



Source: Startup Genome

[6] The Act gives a permit to enter Spain on grounds of economic interest to investors, highly qualified professionals, entrepreneurs, researchers and intra-corporate transferees, who wish to engage in entrepreneurial activities. This Act also makes provisions for startup entrepreneurs.

Table 2. 2017 Global Startup Ecosystem Ranking



Source: Startup Genome

Table 3. Processing time by law in MS

MEMBER STATE	TIME
AUSTRIA	Within 8 weeks
CYPRUS	Within 3 weeks
ESTONIA	Within 2 months
FRANCE	The processing time is not set out in law. The refusal considered implicit if the authorities have not replied within 4 months.
IRELAND	The processing time is not set out in law. The processing time depends on a schedule of windows by the relevant Evaluation Committee, e.g. In 2017, they meet 5 times.
ITALY	Within 30 days
LATVIA	Within 30 days
LITHUANIA	Within 2 months, unless expedited procedure is used, then 1 month.
NETHERLANDS	Within 90 days
SPAIN	For visa: up to 10 days; For business activity permit: up to 20 days; For favourable activity report: up to 10 days
UK	The processing time is not set out in law, but decisions should be made within 3 weeks.

Source: EMN AHQs

Table 4. Duration of visas/residence permits

MEMBER STATE	DURATION *(INITIAL)*	COMMENTS
AUSTRIA	Up to 1 year	There is a legislative proposal to extend the validity of Red-White-Red Cards to 2 years
CYPRUS	Up to 1 year	Initial permits are issued for 1 year, renewable for 1 additional year (self-employed; paid employees there is a potential to renew for 2 years)
ESTONIA	Visas up to 1,5 years/ Residence permit up to 5 years	Temporary permits renewable
FRANCE	Up to 4 years	Renewable
IRELAND	Up to 2 years	On renewal, residence permission will be granted for further 3 years, thereafter renewed in 5-year instalments.
ITALY	Up to 1 year	May be renewed in 2-year instalments thereafter.
LATVIA	Up to 3 years	While the right to stay is granted for 3 years, the residence card is issued for one year and should be registered annually.

MEMBER STATE	DURATION *(INITIAL)*	COMMENTS
LITHUANIA	Up to 1 year	Renewable for 1 additional year
NETHERLANDS	Up to 1 year	After one year, the startup entrepreneur may have their residence permit extended if he/she meets the standard requirements applicable to the self-employment scheme
SPAIN	Visas up to 1 year, business activity residence permits up to 2 years.	Permits are renewable for 2-year periods, as long as they continue to meet the conditions
UK	Up to 3 years and 4 months (40 months)	Renewable for 2 years.

Source: EMN AHQs

Table 5. Possibility for the recipients of startup visas/permits to bring their family immediately with them

MEMBER STATE	FAMILY MIGRATION
AUSTRIA	Yes, general rights extended to family members of startup visa/permit recipients as to regular migrants.
CYPRUS	No, a possibility of family reunification is made available, if the enterprise succeeds. The success or failure is assessed at the end of the second year.
ESTONIA	Yes, general rights extended to family members of startup visa/permit recipients as to regular migrants.
FRANCE	Yes, the residence permit "Talent passport - family" granted immediately to the same length as the "Talent passport" residence permit. This entitles family members to work in France.
IRELAND	Yes, general rights extended to family members of startup visa/permit recipients as to regular migrants.
ITALY	Normal rules for family reunification apply as with regular self-employed residents.
LATVIA	Yes, general rights extended to family members of startup visa/permit recipients as to regular migrants.
LITHUANIA	Yes, general rights extended to family members of startup visa/permit recipients as to regular migrants.
NETHERLANDS	Yes, general rights extended to family members of startup visa/permit recipients as to regular migrants.
SPAIN	Yes, general rights extended to family members of startup visa/permit recipients as to regular migrants.
UK	Yes, dependants have the right to work and study, but will not be able to access public funds.

Source: EMN AHQs

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