September 2021

EU Tech Chamber
Finance Commission White Paper
10 Key Recommendations for Europe's Finance Industry

European Technology Chamber
eutec.org

EXECUTIVE SUMMARY

It is an important moment for Europe and the whole world as we start to see the light at the end of the tunnel. Vaccination campaigns have accelerated throughout Europe and businesses start to show modest signs of recovery. However, we must be cautious.

Europe made significant efforts in 2020, but we need to think big and do even more. The private sector should implement the necessary measures to allow us to take European companies to a higher level. It should not only be about recovery from the Covid crisis but also about setting the foundation of a robust European business structure so that we can compete with our US and Chinese peers. We have identified a few areas where the private sector could lead by example:

For businesses that are still struggling and are in risk of insolvency or similar, we are very much in favour of a more flexible approach from European financial institutions to extend their lifeline if there are clear viability studies to back such financial support.

For young European companies, it is critical to raise the necessary Capital (both public and private) and receive the relevant technical support (from clusters, private entities or other institutions) to achieve their business goals. It is surprising to see that US and Chinese companies are massively investing in our European entrepreneurs while here, in Europe, investors are often reluctant or simply prefer to invest abroad.

We envision a stronger collaboration within Europe at all levels, which would not only improve our lives but also our neighbors'. To continue making real change everywhere, we also think it is time to consolidate the trend in impact investing.

We have also seen progress in the digital assets space in Europe but there is still a lot to be done. Achieving a standardized, safe and simple set of rules to fully adopt digital assets across Europe is key for adjusting to the new times and providing more options to European businesses.

The private sector must act!

With great technology comes great responsibility.

Technology Obliges!

The European Technology Chamber is a registered NGO, which enables European businesses to use their technologies for the benefit of Europe and mankind. The EUTEC Chamber has three major goals and believes that technology is the answer to reaching those.

Competitiveness

Strengthen Europe's competitiveness and transformation capabilities in its Global positioning

Sustainability

Leverage innovation, key technologies and business opportunities to achieve 17 UNSDGs

Growth

Build bridges to international markets and establish partnership for an inclusive growth

About Finance Commission

Designed to foster innovation and business opportunities for European technology.

Europe is at a crossroads. The current pandemic and the global hegemonic race with the US and China, who are in leading positions, are increasingly widening the gap between Europe and these two Superpowers. In line with our EU Tech Chamber's goal to make European companies more competitive, the EU Tech Finance Commission helps our Advocates to find the resources needed to compete and enter new markets.Supporting Impact projects, in conjunction with the Mustard Seed-IHD, is also an important objective of the Commission.

Competitive Support

Strengthen European Businesses with access to capital

Growth

Support European Companies in their endeavors to enter new markets

Impact Projects

Serving the greater good in conjunction with Mustard Seed-IHD

METHODOLOGY

EU Tech Chamber White Paper

An EUTECH White Paper serves as an informational document to share knowledge, foster exchange and collaboration, and create value for our advocates and the larger EUTECH community, from society to businesses, and from industry professionals to technological innovators.

Our White Paper shares technology-driven solutions and methods to help solve some of our most challenging questions on how we can improve our lives, providing insights from engineers, experts, and researchers.

A White Paper is carefully curated in collaboration with EUTECH advocates, supporters and contributors who share EUTECH's vision and values, and is published by EUTECH Sections for educational and knowledge sharing purposes.

European Technology Chamber

With great technology comes great responsibility.

Technology Obliges!

10 RECOMMENDATIONS FOR EUROPE

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1. Facilitate Access to Capital for entrepreneurs: Europe's young minds are trying to bring their ideas and projects to market, and they just need the right financial and technical support. We think European Financial Institutions and Corporates should invest more in European entrepreneurship.

2. Deploy more resources for companies at risk of insolvency: the prolonged economic shut down in Europe has brought thousands of companies to the brink of collapse. We believe European Financial Institutions and Corporates could provide further support to those businesses that are viable in the mid/long term.

3. Strengthen the existing industry clusters network: we need to bring companies together to combine their efforts and help level the playing field with the US and China.

4. Provide support and guidance for businesses seeking private funding: companies struggle to find investors and entities like EUTECH and industry clusters could certainly fill the gap.

5. Foster digital skills for finance and business leaders: it is important to acquire the necessary digital skills as businesses accelerate the adoption of digital technologies (AI, machine learning, robotics and advanced analytics).

10 RECOMMENDATIONS FOR EUROPE

6. Create new financial instruments that combine public and private funding: via closer (and stronger) collaboration between development banks and private institutions.

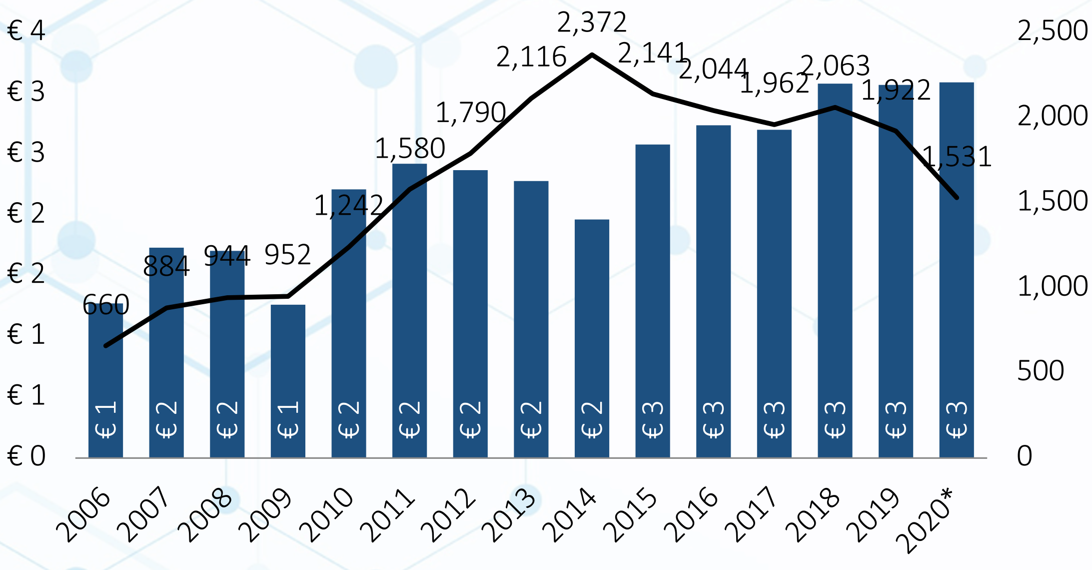
7. Set the criteria for the use and adoption of digital assets: the digital assets trend seems unstoppable and so we need to promote and align the necessary standards for the use of these assets across Europe.

8. Standardize the investment criteria for impact investing: little is known about the investment criteria used to screen social enterprises (SEs), but these criteria are critical for SEs to be able to adjust their focus and make a real change.

9. Support the Joint Impact Indicators (JII) as a common standard for impact measurement: to finally be able to harmonize the various measurement methods that have coexisted for years and track impact investing results more efficiently.

10. Create financial instruments that reward growth: based on certain metrics, provide repeat capital investment when growth KPIs are met (financials, quality standards to adhere to, hiring new employees, recruit new graduates, etc.).

1. Facilitate access to capital for entrepreneurs



VC deal activity [1]

Despite having another record year in terms of deal value (€42.8 billion [1]), which represented a 15% YoY increase, young startups are finding it more difficult to access capital. First-time VC deals remained the same as in 2019 (€3.1 billion [1]), with a significantly lower number of deals (with an estimated 1,531 in 2020 vs 1,922 in 2019, a drop of 20%).

Most investment went into software companies (33.8%) followed by Pharma and Biotech (12.7%) and commercial services (8.3%).

A survey of European startups conducted by Flourish (COVID-19 mitigation measures by start-ups) produced interesting results:

1. Over 40% of respondents were planning to delay their fundraising.
2. 49% engaged with banks to enquire about a loan (10% in UK).
3. 29% were considering venture debt (over 40% in the UK).
4. 63% applied for grants or were planning to do so.

With these numbers in mind, **Financial Institutions (FIs), Corporates and possibly other entities should continue facilitating the necessary capital for European entrepreneurs**. Also, most money invested by VCs in 2020 went into follow-on rounds (92.5% vs 92.1% in 2019), which implies that only 7.5% goes into first-time VC deals [2].

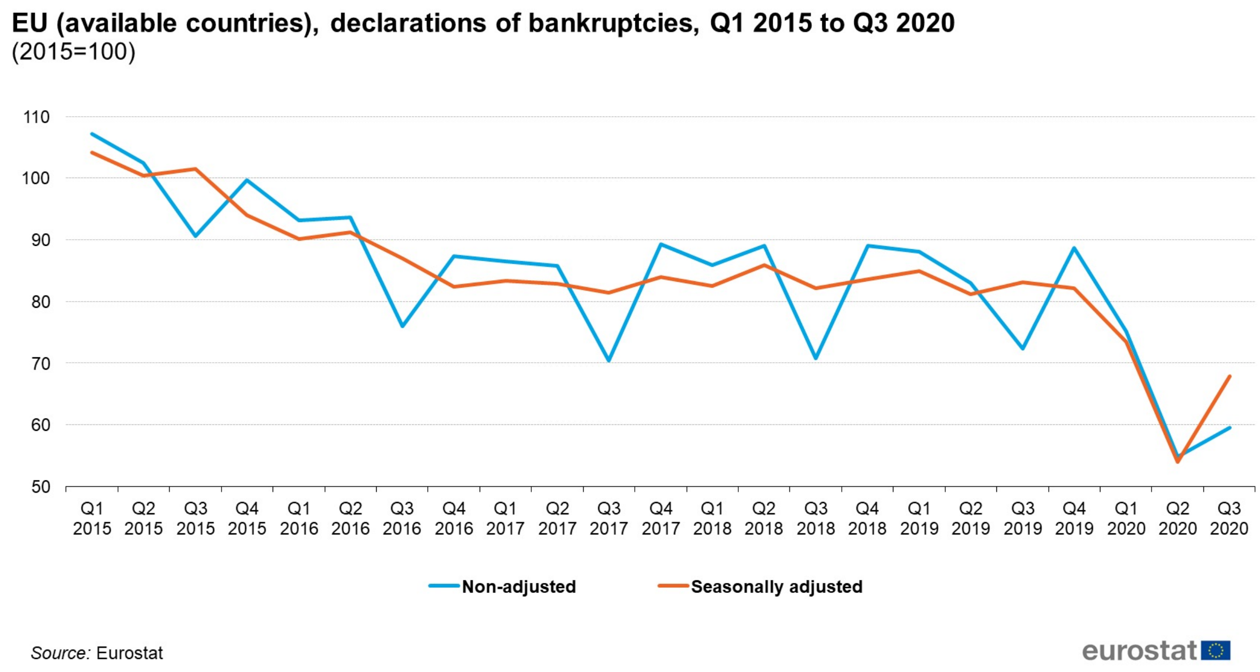
European startups are showing significant resilience and adaptability during the pandemic but need financial support to be able to survive and continue their projects. VCs raised a record high of €19.6 billion in 2020 (35.2% YoY increase [1]), which we hope will translate into higher investment into startups and scale-ups; however, we do also expect European FIs and Corporates to step up their game and assist entrepreneurs with strong financial backing.

2. Deploy more resources for companies at risk of insolvency

The Pandemic took a tremendous toll on many European businesses in 2020 and the forecast for 2021 doesn't show very promising signs of recovery. Moreover, a significant number of firms will face long-lasting effects and so recovery may take much longer.

European governments have been, so far, quite supportive of private businesses, with the application of exceptional measures during 2020, such as fiscal actions (furlough schemes and tax deferrals) and credit support schemes, that have certainly helped limit the corporate liquidity shock. These measures will be withdrawn gradually as countries progress with their vaccination campaigns and the economy finally re-opens.

According to a recent blog from Bruegel [3], Corporate bankruptcies are set to rise. The reasons for this are twofold: on the one hand, the fact that regular insolvency law enforcement was suspended during most of 2020 (and is still suspended in some countries) and would supposedly come to an end soon, and on the other, the fact that the above government measures will also come to an end.



We expect the private sector (mainly Financial Institutions and Corporates) to back businesses that are viable in the mid and long term. Debt restructuring by banks and landlords is key (rather than liquidating) and governments could incentivize it (i.e., via tax credits).

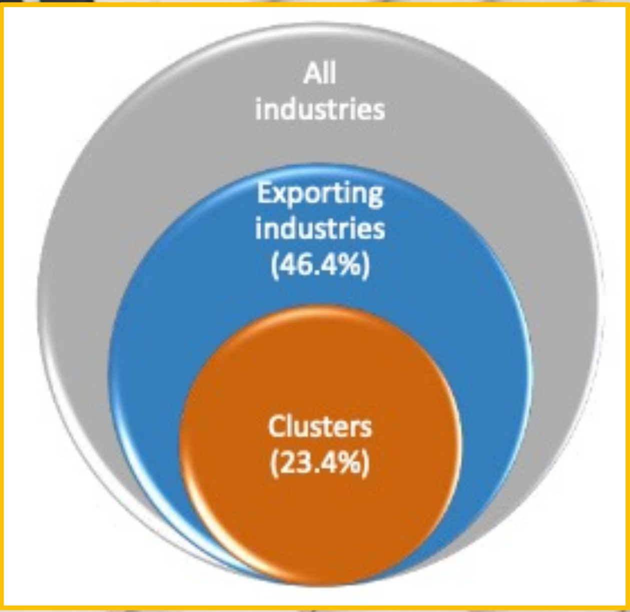
We would also recommend (as done by the ESRB on their Jan 2021 No 2 ASC Insight conclusions [4]) to unify the insolvency system across Europe as it has proven to be quite inefficient due to its complexity and significant differences between European countries.

3. Strengthen the existing clusters network

There is a significant network of clusters in Europe, especially in the EU. They are formed by exporting industries and account for 23.4% of all jobs in the EU and 50% of the employment in exporting industries. Clusters show higher competitiveness within their respective sectors as they bring productivity significantly above average.

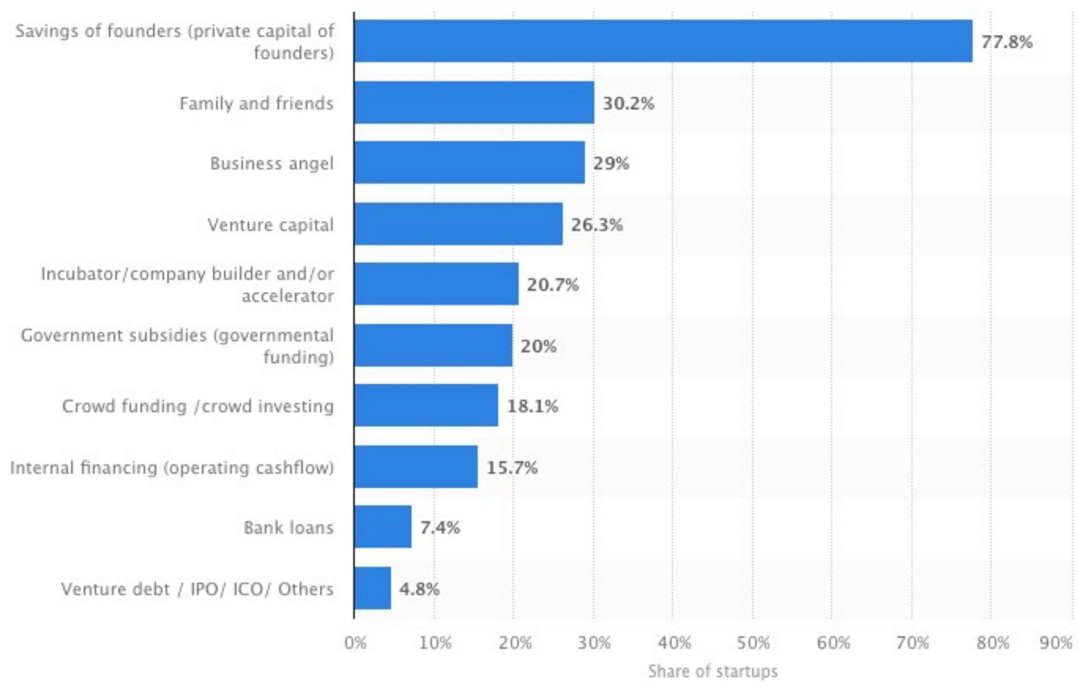
We believe clusters are key for European businesses to compete on better terms with the US and China, and we therefore recommend **strengthening the European clusters network by seeking a more Pan-European network through the grouping of the existing regional clusters, and by collaborating with non-EU clusters** (e.g., the UK and Switzerland) **to achieve greater productivity and economies of scale**.

The US, Canada and China are in an advantageous position when it comes to building clusters as they have common norms and languages, however, we are convinced Europe will overcome these hurdles and build a more robust cluster network.



Share of traded industries and strong clusters in total employment [5]

4. Provide support and guidance for businesses seeking private funding



Source of financing for European startups 2018 (Statista 2021) [6]

Nearly 78% of European startups used their founder's money to begin or continue their activity while only 20% of them received governmental funding. The year 2020 has been an unusual one as the European States (EU and non-EU) have provided additional funding to companies to cope with COVID, but it seems clear that entrepreneurs mainly rely on their founders, family and friends to operate.

The success of entrepreneurs depend greatly on their ability to attract investment.

The European Technology Chamber (EUTECH) and similar organizations (i.e., industry clusters) can help and guide startups and SMEs to connect them with investors. Funding is very important, however, so is smart money, and this is where NGOs and similar institutions can also provide added value.

There is a need to find the right investors. Depending on whether it is a startup, scaleup or an established SME, the choices will be limited. Usually angels, incubators or even crowdfunding platforms would be a good fit for startups while VCs, family offices and accelerators would be better suited for scaleups and SMEs. In terms of lending, Financial Institutions would be more inclined to lend to companies that already have a revenue stream rather than to startups, which are a riskier bet.

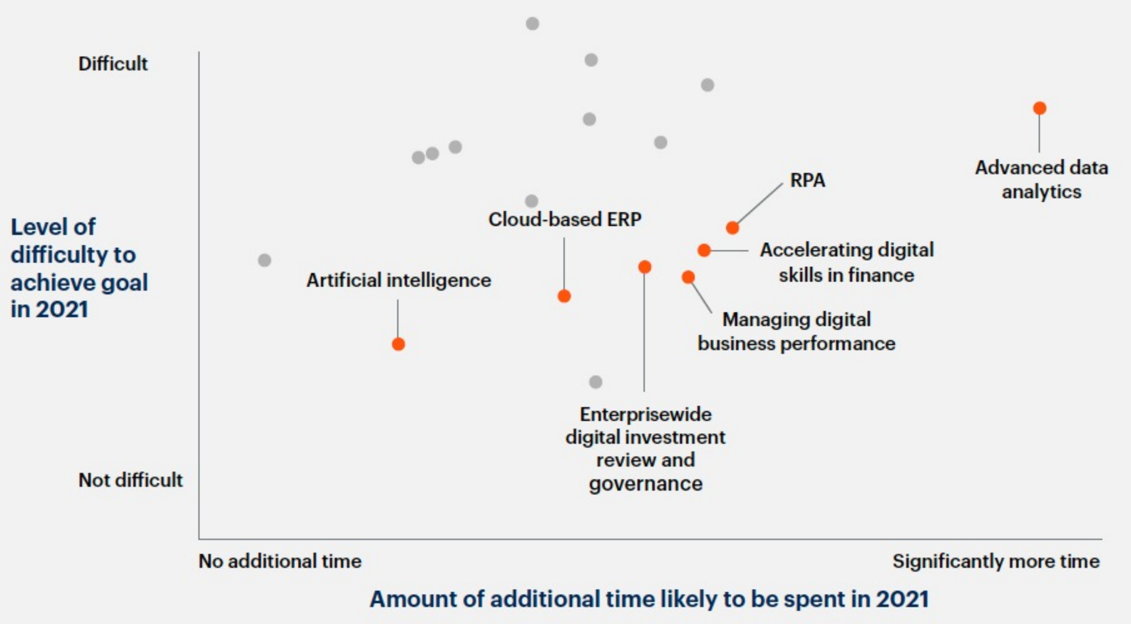
At EUTECH, we see more and more companies coming to us asking for advice and looking for help to connect with investors. In many cases, companies have already received some sort of help from their governments, but they still need to complement that with private funding as in most cases this help is insufficient.

We encourage European companies to speak to us to get the guidance and help they need to tackle not only their funding needs, but also other potential issues such as how to grow, move into new markets, etc.—we are here to support these companies.

5. Foster digital skills for finance and business leaders

CFOs and business leaders in general along with their teams should embrace digital finance skills. **We recommend following Gartner's digital finance skills**:

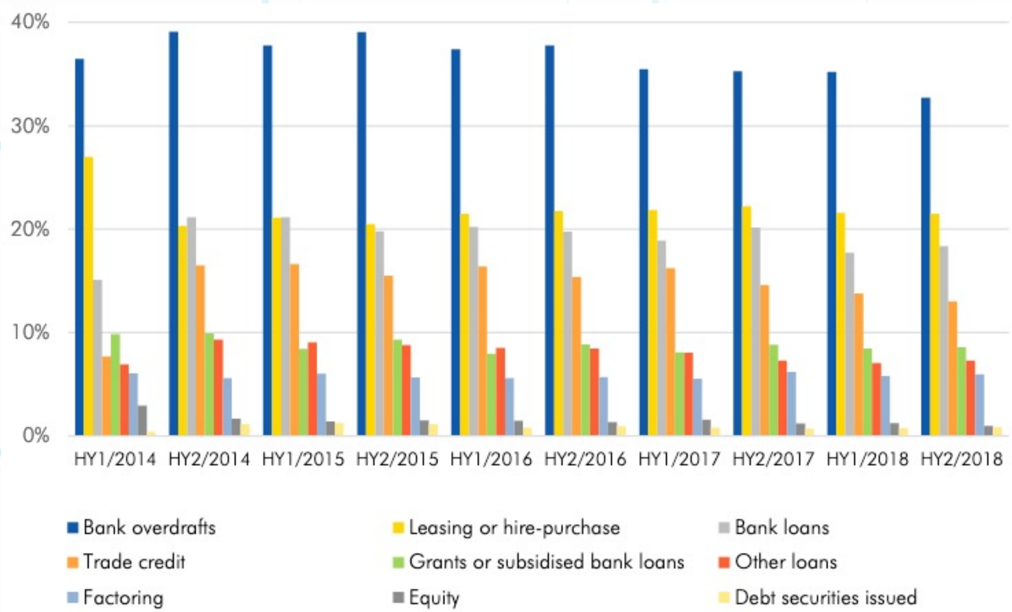
1. **Technology and automation**: FMS applications (robotic process automation and AI can help finance deliver more value with less effort and less risk via automation).
2. **Business process management**: Gartner estimates that only 40% of the cloud solutions to be implemented will achieve their goals. Finance needs to get involved and make decisions (together) with IT.
3. **Data literacy**: make an effort to get proper training and make the best out of the digital tools available. Up to 1% of revenue can be lost due to a lack of expertise in the field.
4. **Advanced analytics**: as technology increases its sophistication, so should the training of the people that manage it.
5. **Business partnering and collaboration**: finance should transform from being an "isolated" area within the company to becoming a strategic advisor/business partner to the rest of the business.



CFO's digitalization priorities will take bandwidth and effort [7]
A range of digitalization initiatives feature among the wide range of CFO priorities for 2021.
CFOs expect most digitalization efforts to take up more time in 2021 than they have in the past and see most as at least somewhat difficult to accomplish.

In line with the above, Gartner dug deep into the finance competencies needed to achieve a truly digital finance function, producing the following five must-haves [7]: technological literacy, digital translation, digital learning and development, digital bias management, and digital ambition.

These recommendations are quite specific about finance, however, needless to say, all areas within a company should enhance their digital skills in order to stay competitive in an increasingly technologically advanced business world.



Use of external sources of financing by Euro area SMEs [8]

European Development Finance Institutions such as the EIB and EBRD (via intermediaries) plus the respective national entities (directly and via intermediaries) facilitate access to finance.

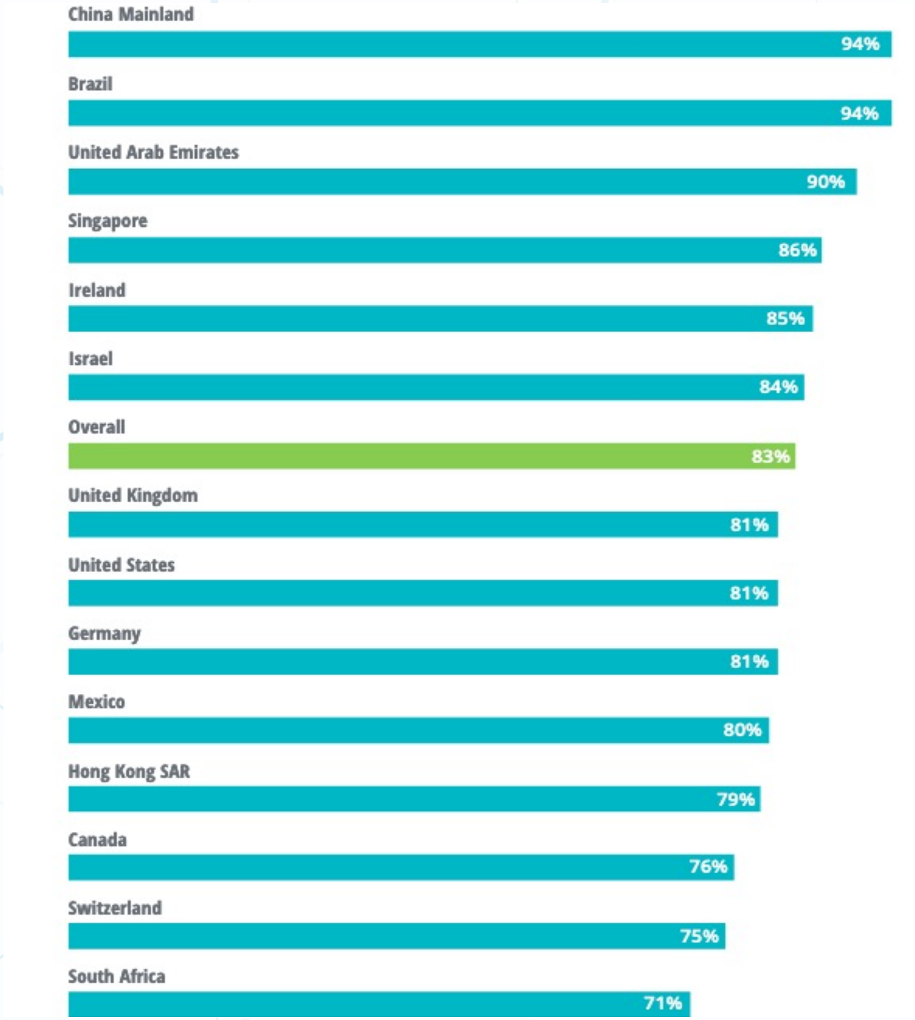
Public funding terms are easier to achieve for multinationals than for SMEs, as the required additional guarantees are sometimes hard to obtain. Looking at the financed projects, it is obvious that multinationals and governments' projects are the ones that are mainly backed by such institutions.

6. Create new financial instruments that combine public and private funding

We recommend collaboration with private banks and the creation of new financial instruments, considering the reason for the creation of European Development Finance Institutions (*to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiatives*). SMEs are the backbone of European industry and should therefore have entry barriers that are reasonable for them to achieve their goals when they apply for support from the European Development Finance Institutions.

We suggest that public and private entities should provide the financing needed for SMEs at a European market rate with better terms and less hurdles. Public bank institutions are sometimes afraid to finance projects outside of their territory due to country risks. In this regard, we believe that European Development Institutions must create partnerships and provide their expertise in line with their mandate. European SMEs would then be in a better position to develop projects and grow, as well compete better against their peers in China and the US. In a nutshell, the public-private collaboration would be highly beneficial as the risk would be shared equally and the European SMEs would be able to push through their projects.

Having a proper framework for public-private financial instruments will certainly be a big step forward towards truly facilitating a better source of funding for SMEs and a more efficient and streamlined process for both the public and the private sector.



Digital assets as alternative to or replacement for fiat currencies, by country [9]

7. Set the criteria for the use and adoption of digital assets

On September 24, 2020, the EU Commission launched a proposal for a new regime to regulate crypto-assets and Distributed Ledger Technology ("DLT") in the financial sector. This regime should replace existing national frameworks for this type of digital asset and is expected to be fully in effect by 2024.

In comparison, Switzerland has just implemented their Swiss DLT-act (with some of the provisions to enter in force on 1 August 2021) from which certain activities will benefit, such as: 1) the introduction of a new license type for trading venues focusing on digital assets, 2) clearer and lighter regulations for digital assets custody providers and 3) the introduction of a civil law concept for digital securities (asset tokens) that will enable the creation and transaction of digital uncertified securities in a DLT ecosystem without legal uncertainties.

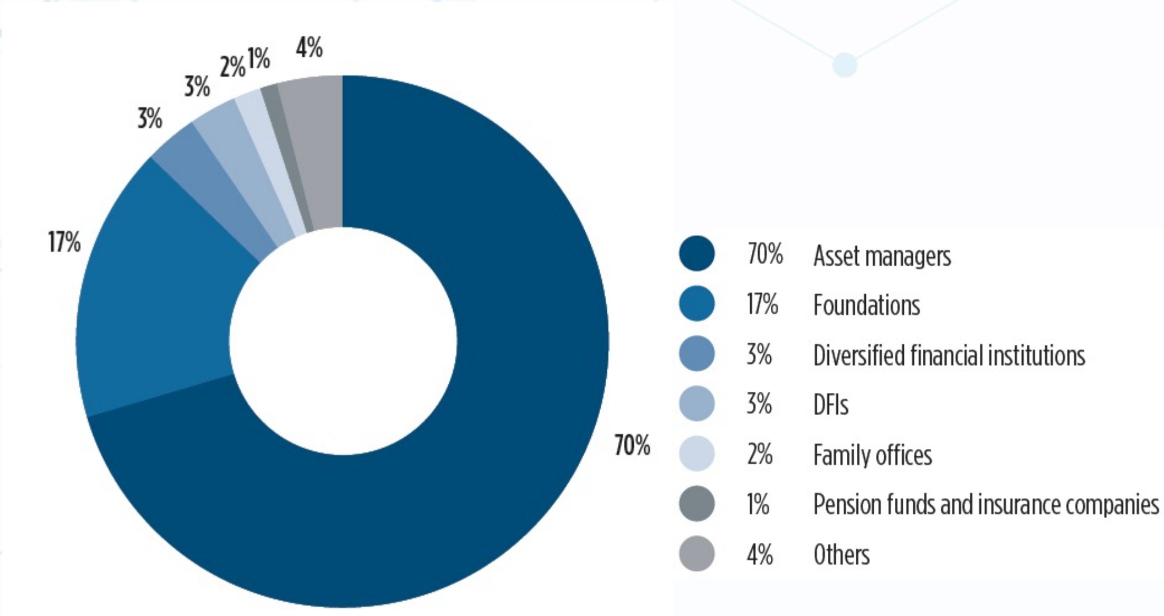
In the UK, there is no specific DLT Regulatory framework yet, so digital assets are regulated by a regime that existed prior to the rise of digital assets. In short, the FCA (UK financial regulator) considers exchange and utility tokens unregulated, and security and e-money tokens regulated [10].

With all the above in mind, we should try to expedite implementation of the EU proposal, as we believe digital assets are here to stay and likely to co-exist with fiat currencies [9].

8. Standardize the investment criteria for impact investing

The increase in impact investing in the last few years has been enormous. It is difficult though for social enterprises (SEs) that are looking for funding to know exactly what expectations investors have, since it is not clear what their investment criteria are.

In line with the "Investment Criteria of Impact Investors" article [11], which assesses the screening criteria of impact investors in the DACH region, **we recommend that** when looking to raise capital **social enterprises focus their efforts on the following criteria,**



Impact Investing Market Size in 2019 was estimated at USD 715 billion [12]

which will vary depending on the type of investor:

- Authenticity of the founding team (26%): having the creditability to solve the societal problem.
- Social impact criterion (24%): the higher the impact, the more possibilities to be selected.
- Financial sustainability (17%): it is critical to have a financially sustainable business model, avoiding excessive dependency on donation.
- Scalability (14%): the higher the scalability, the higher the societal impact that can be achieved.

Other criteria: proof of concept (10%), degree of innovation (8%) and professional background of the founding team (1%).

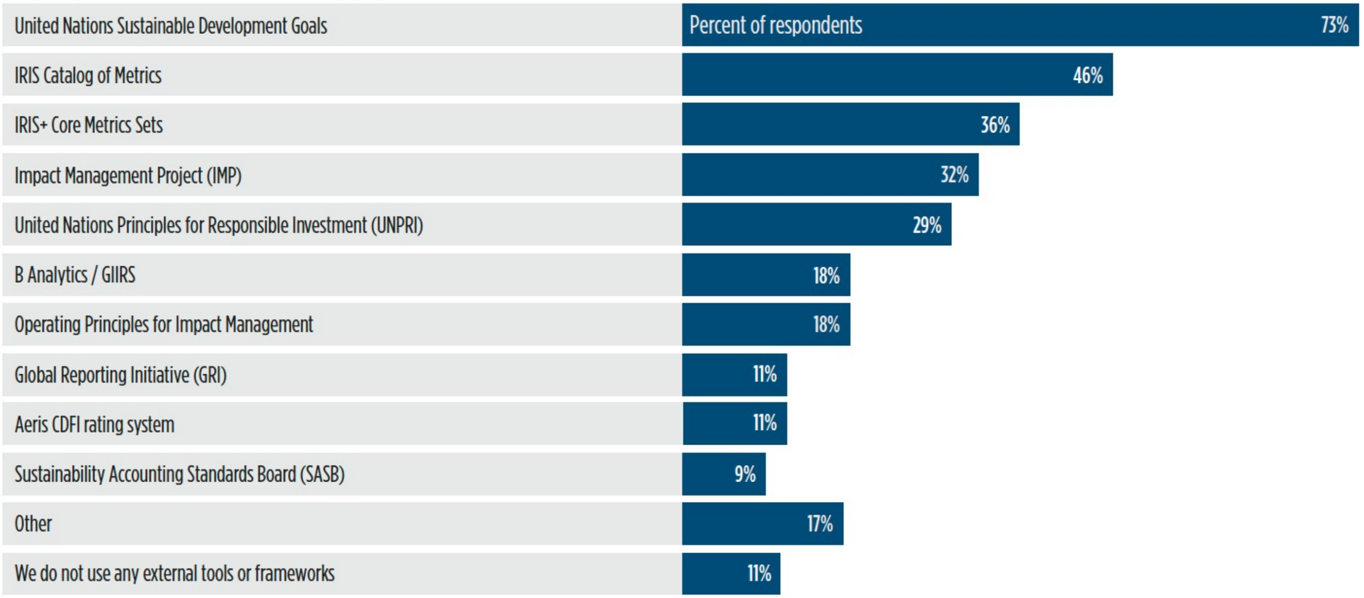
Investors in traditional asset classes are more focused on financial returns and will therefore evaluate the financial sustainability of SEs higher and the importance of the societal problem lower than investors without expectations of return (donors). In addition, for the first type, equity investors will give more importance to scalability than to the founding team having a social background.

9. Support the Joint Impact Indicators (JII) as a common standard to measure impact investment results

Impact investing goals have been set, measured and reported for years now. In this regard, there is a disparate number of methods that are being used and they deliver results that are difficult to consolidate and compare.

Recently, in March 2021, several firms joined forces to publish a memo [13] that encouraged others to **adopt the Joint Impact Indicators (JII) as a common standard in areas that are common across impact investments,** such as Gender Equality, Jobs and Climate, with further alignment to follow soon (further indicators may be added based on the stakeholders' contributions). By joining this initiative, participants commit to:

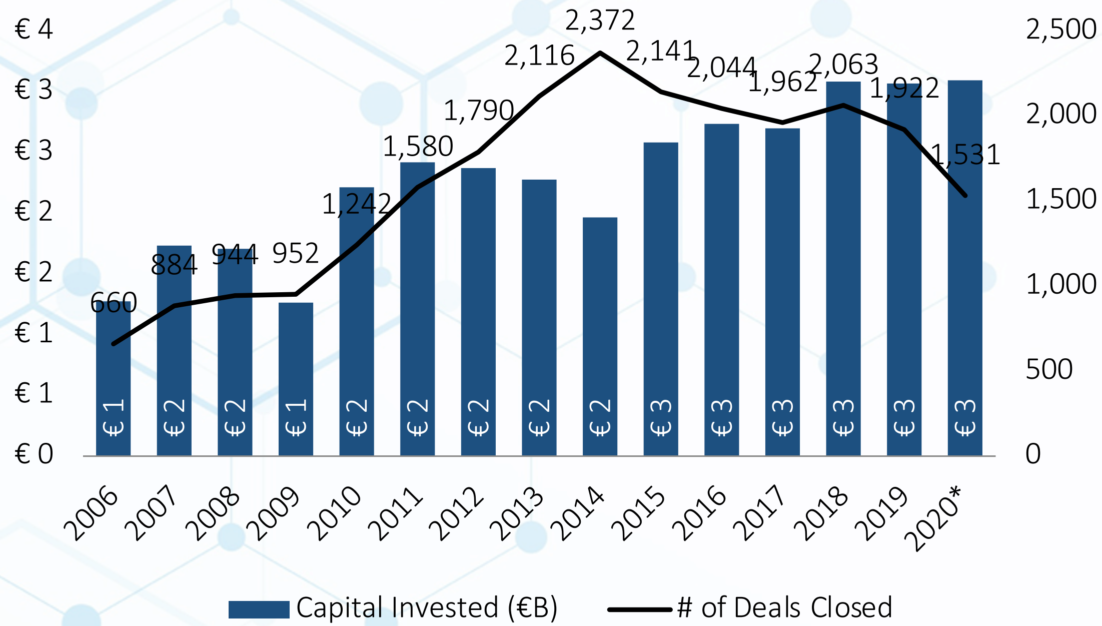
- Use the JII on jobs, gender equality and environment and climate when measuring and reporting on their impact; and
- Collaborate on the identification of a core set of impact metrics, with the aim of defining the minimum scope for impact measurement and reporting for all impact investors.



Overall use of tools, frameworks and systems to manage Impact Investing [12]

We support this approach that intends to leverage on an effective metric system that has already been adopted by more than 100 financial institutions managing over USD 340 billion in impact assets, so giving us all the opportunity to deliver a change that will directly benefit the impact investing industry.

10. Create financial instruments that reward growth



VC deal activity [1]

SMEs and scaleups sometimes struggle to get additional funding when they are running out of capital. There seems to be a gap in the market for financial products that reward growth by providing repetitive capital injections based on certain pre-agreed metrics. We may look at this, at least, from two different perspectives: on one side, we have financial institutions that provide money to companies in exchange for debt and on the other, we have investors that provide money/smart-money to companies in exchange (generally) for equity.

What if companies and money providers agreed in advance to have a one-off subsequent capital injection or even an on-going flow of capital based on a number of KPIs until the company achieved break-even or was able to successfully complete their business plan? To us, this sounds like a fair and potentially productive deal for both.

KPIs could be the following:
- Financial: revenue figures, debt level, cash flow, etc.
- Hiring of new employees: depending on the industry, business plan submitted, etc.
- Quality standards
- Adoption of new technologies
- Recruitment of new graduates.
- Etc.

Once an agreement has been reached between the parties, they would just have to implement a robust monitoring process for Fis and/or investors to be able to ensure KPIs are met on an ongoing basis. Money should continue flowing as long as results are as expected with adjustments being done along the way as needed.

CONCLUSION

CONCLUSION

Our ultimate goal is to ensure European businesses get the relevant support from the European finance industry as well as from other industries (in general, corporates or clusters / associations). We firmly believe that our recommendations can help to achieve this objective.

We expect European investors to increase their capital allocation in European enterprises, keeping control of their IP within the region and supporting our industry. Financial support should also be accompanied by strategic support, which would help companies achieve their goals in a more structured and efficient manner, thereby paving the way for a more robust European business foundation; we are convinced investors and external partners (clusters, NGOs) could take on this role.

The fostering of public and private collaboration, via new financial products, will also be crucial as it will provide more flexibility and choices to companies.

When you look at the number of companies that the Pandemic, which started in Q1 2020, has caused to go bankrupt, the scale of the financial devastation can be seen. We are hoping European financial institutions and corporates in general will step up and join European governments and Central Banks in extending credit lines and providing capital injections for those companies that are viable in the mid-long term.

In addition to these initiatives or measures, we strongly believe that all our industries should implement or even accelerate the learning of digital skills for finance and business leaders to be able to catch up with the enormous growth technology has been experiencing in the last few years. This will level the playing field with other advanced technological superpowers such as the US and China.

The UN SDGs are key to the EU Tech Chamber's overall strategy; we have therefore also put Impact Investing in our list of recommendations. We support a twofold strategy related to this important area, strengthening the investment criteria on the one hand, and on the other, measuring the investment outcome via adoption of common standards of the finance industry.

Finally, by accelerating the adoption of digital assets across the Continent by emulating Switzerland, which has been at the forefront of this area in Europe, we will be able to provide more choices to our businesses and catch up with other big economies.

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