



"From Startup to Scale-up: Mobilising Finance for Disruptive Innovation"

**2016 Guglielmo Marconi Lecture,
The Lisbon Council
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Ladies and gentlemen,

A little over a century ago, for the first time, the world went wireless.

The 12 December 1901 marked the first radio transmission across the Transatlantic; from Ireland to Newfoundland.

Not only was this a remarkable technical achievement. But it led to the emergence of entirely new companies and new markets. In radio, television, mobile telephones, and today's app economy. One of these new companies was created by the same man who conducted the first radio transmissions.

He was at the intersection of different countries, religions and disciplines. A true innovator. So it is a great honour to be here today giving a lecture in honour of this man, Guglielmo Marconi.

Today I would like to present to you two major initiatives I am championing to mobilise investment in disruptive innovation.

These initiatives are part of the Commission's "Startup and Scale up Initiative" that was published last week. And both initiatives respond directly to recommendations in the Digital Forum report that Paul [Hofheinz] and Sergey [Fillipov] have written. They are:

1. the European Innovation Council
2. the venture capital Fund of Funds

But before this, I would like to step back and explain how these initiatives fit into some of the main political and economic challenges Europe is facing.

A fundamental issue in today's economy is the uneven growth in productivity and prosperity. If we look at the OECD work on "the Future of Productivity", this shows that the overall slowdown in productivity is not present everywhere.

In fact, the leading companies have been rapidly

increasing their productivity over recent years. These productivity improvements are concentrated in markets such as ICT and in companies that are using digitisation.

It's great that these sectors are thriving - but they add up to only a small part of the economy – 10% according to Harvard economist Dani Rodrik. But all the other companies are stagnant, with virtually no increase in productivity. Here we are talking about major parts of the real economy, such as health care and government services.

And the gap between the leading companies and everyone else is growing.

The cities and regions where the 'productivity leaders' are located are powering ahead. But other regions do not benefit from this. The individuals with the right skills are benefitting. But others are not.

This lack of diffusion feeds inequality, which has a huge cost for all of us. It translates into wasted resources, wasted talent and wasted potential. Not to mention political discontent.

Why is this happening?

The OECD analysis points to the lack of diffusion of knowledge and technologies. The knowledge is trapped in businesses that are investing in innovation

and it is not getting out into the wider economy. Rodrik tells us that technological diffusion can be constrained on both the demand and supply sides of the economy.

Take the demand side first. In rich economies, consumers spend the bulk of their income on services such as health, education, transportation, housing, and retail goods. Areas that have not seen much impacts of digitisation and productivity improvements. But I believe there is good news coming on the demand side. As Steve Case puts it, the "third wave" of the internet is going to transform traditional sectors in the coming years.

This will create a huge demand for innovation. But it will be a demand for a different type of innovation. The future demand will be for innovations that combine physical and digital; that put the users at the centre; and where newcomers with new business models will enter and rapidly create entirely new markets.

So I believe the challenges for Europe are more on the supply side. Where will the pipeline of market creating innovations come from? Will these innovators be able to find the skills and the financial investments in order to scale up?

Europe does not have a good track record at market creating innovation.

It is well known that only a few of the so-called "unicorns" are based in Europe.

In fact, most of Europe's big companies were created at the time of Marconi.

And if I look at Horizon 2020, we offer great support for incremental innovation. But we do not focus on market creating innovation. And the new generation of start-ups and fast growing companies do not come to Horizon 2020.

So my idea of European Innovation Council is to champion market creating innovation.

To complement the great support we already offer in Horizon 2020, with a new approach that targets market creating innovation. The kind of innovation that does not come from technology roadmaps. That does not fit neatly in existing sectors but is at the interface. And that has the potential to scale up quickly.

In a Call for Ideas conducted earlier this year, 80% of respondents agreed that the lack of market-creating innovations is holding back growth in Europe.

Many also commented we have gaps in current innovation support when it comes to scaling up. And that this is not just financial support, but also

mentoring and coaching.

So I would like to develop an European Innovation Council which changes the landscape. We will proceed step by step, with a preparatory phase in 2018-2020 and a full-scale EIC in the next programme.

In the first phase, we will introduce a set of reforms to improve the way we fund innovation within Horizon 2020. For example, the Commission is committed to introduce an entirely bottom up approach in the Horizon 2020 SME instrument. We will change our evaluation criteria and process to increase the probability of funding market-creating innovations. We will interview the people, not just evaluate the paper proposals. We will introduce mentoring and coaching support. We will look at ways that companies can graduate from grants to private investment. And we are engaging top innovators to help us introduce these reforms and to recommend what we should do in the next programme.

This takes me to the second major initiative. We do not only need a supply of great ideas. We also the financial firepower to scale them up.

Access to risk finance is still the biggest barrier for innovative firms. Especially fast growing firms. So it is a huge concern that venture capital is so underdeveloped in many parts of Europe and that we

lack real European market for large scale venture capital.

Our analysis, supported with data from Invest Europe, shows three major problems.

First, EU VC funds are relatively small. Their average size at final closing is only around 60 million euro — just half the size of the USA's —, and their average size is under 30 million. This limits their ability to make the larger investments needed by firms as they scale up. Funding tends to dry up over time.

Second, they do badly in raising funds from major institutional investors (and are dangerously dependent on public funding which accounts for over 30 percent of capital raised in recent years).

And third, there are significant barriers for VC funds to operate on a trans-national basis. For example, support from national governments often restricts the geographic scope significantly.

So in a team effort across the Commission and with the European Investment Fund we are taking a different approach to supporting venture capital. Our aim is to establish one or more pan-European venture capital Funds of Funds, managed independently, with a fund size of at least 500 million euro and a majority of private capital, and operating over five or more European countries.

Earlier this month, I announced the call for independent fund managers to express their interest. The EU will provide cornerstone investments of up to 300 million euros in each of the selected Fund-of-Funds, up to a maximum budget of 400 million. The selected fund manager or managers must raise at least three times as much from other sources, as the EU investment is capped at 25%.

We are looking for managers with a strong record of attracting private investment. Who can attract the large institutional pension funds, insurers and sovereign wealth funds that don't find it easy at present to access venture capital in Europe. The deadline is 31 January 2017. Now is the time to step forward!

Ladies and gentlemen, as I have often said, the world of innovation is changing. We are entering an era of open innovation. And EU innovation policy should change too. This should not be just talk, but also action.

With the first stage of a European Innovation Council, that will use at least 1.6 billion from the budget of Horizon 2020 to create a pipeline of market creating innovations.

With a 400 million euro cornerstone investment to raise at least 1.6 billion euro in venture capital for

scaling up companies.

I hope that I have convinced you that we are serious. And with a new European research and innovation programme on the horizon, I hope there will be much more to come.

As Marconi used to say: Every day sees humanity more victorious in the struggle with space and time

Thank you.