



ANNEX 4.16 TO THE JRC TECHNICAL REPORT

High Growth Enterprises:

demographics,
finance &
policy measures

FACTSHEET - THE NETHERLANDS (NL)

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1. Executive summary

The Netherlands performs very well overall regarding high growth enterprises* (HGEs). Both the number of HGEs and HGE size are well above European average, but the HGE employment share is still around EU average. Both the number of HGEs and the number of people they employ have risen fast at +47% and +72% between 2012 and 2017. The large increase in HGE employment is partially due to the flexibilisation of the Dutch labour force as the largest growth in HGE employment occurred in the sector 'employment activities'. The emergence of HGEs is favoured by the improved accessibility to finance. This is reflected in the increase in venture capital (VC) available in the Netherlands in recent years. In 2017, the sectoral distribution of VC investments was diversified, with manufacturing, ICT and transportation receiving most investments. The sectoral distribution of VC investments can change substantially over time noting how in 2013 manufacturing received over 80% of total VC compared to 33% in 2017. VC investments concentrate in North Holland and Brabant - both leading innovation regions, but not the only ones in the Netherlands. Despite progress, the VC markets in the Netherlands still remain underdeveloped, especially in comparison to the US and UK.

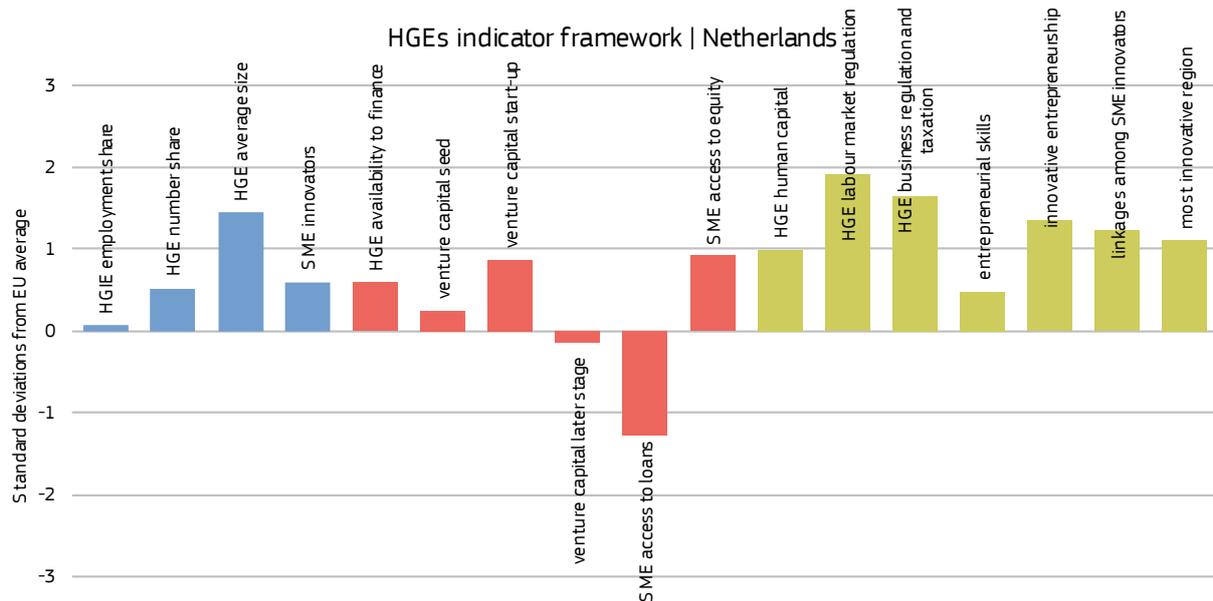
While overall the conditions for HGE in the Netherlands are excellent, there is room for improvement in facilitating SME access to loans. Considering the general shortages of STEM and ICT personnel in the Netherlands, the positive picture for HGEs is somewhat surprising. There may also be room for improvement in the provision of entrepreneurial skills. Among the knowledge-intensive HGEs, most (about 60%) can be found in knowledge intensive market service followed by high-tech knowledge services. There are relatively few HGEs in (medium-)high-tech manufacturing sectors. The Dutch approach to industrial policy which offers support to public-private partnerships in top? sectors may lend itself to coordinating knowledge production and aligning it with industry's interest, but may be less suitable for generating new firms that push forward more disruptive kinds of innovations.† A 'meta-evaluation of the rationales and effects of 60 Dutch innovation and entrepreneurship policies'‡ found that a substantial share lacked a clear grounding in economic thinking on growth and innovation. Those that are actually tuned to innovation and growth are increasingly of a fiscal nature, covering about 80% of the entire budget for this segment. The Patent Box (Innovation Box) accounts for roughly half of this, but is not particularly friendly for younger HGEs not having already a patent portfolio that allows them to decrease their profit tax (profit they may not yet make in the first place). In that sense, the other fiscal incentive "WBSO" which offers partial tax exemption for labour costs of R&D employees, is observed to be more suitable for supporting innovation in HGEs.

* In line with Eurostat, HGEs are defined in this factsheet as enterprises having (i) experienced an annualised average employment growth rate of 10% per year over a three-year period and (ii) at least 10 employees at the beginning of the growth period. The importance of HGEs is directly linked to their substantial contribution to employment growth, productivity improvements, economic renewal and innovativeness.

† Jansen, M. (2019). What bangs for your buck? Assessing the design and impact of Dutch transformative policy. Technological Forecasting and Social Change.

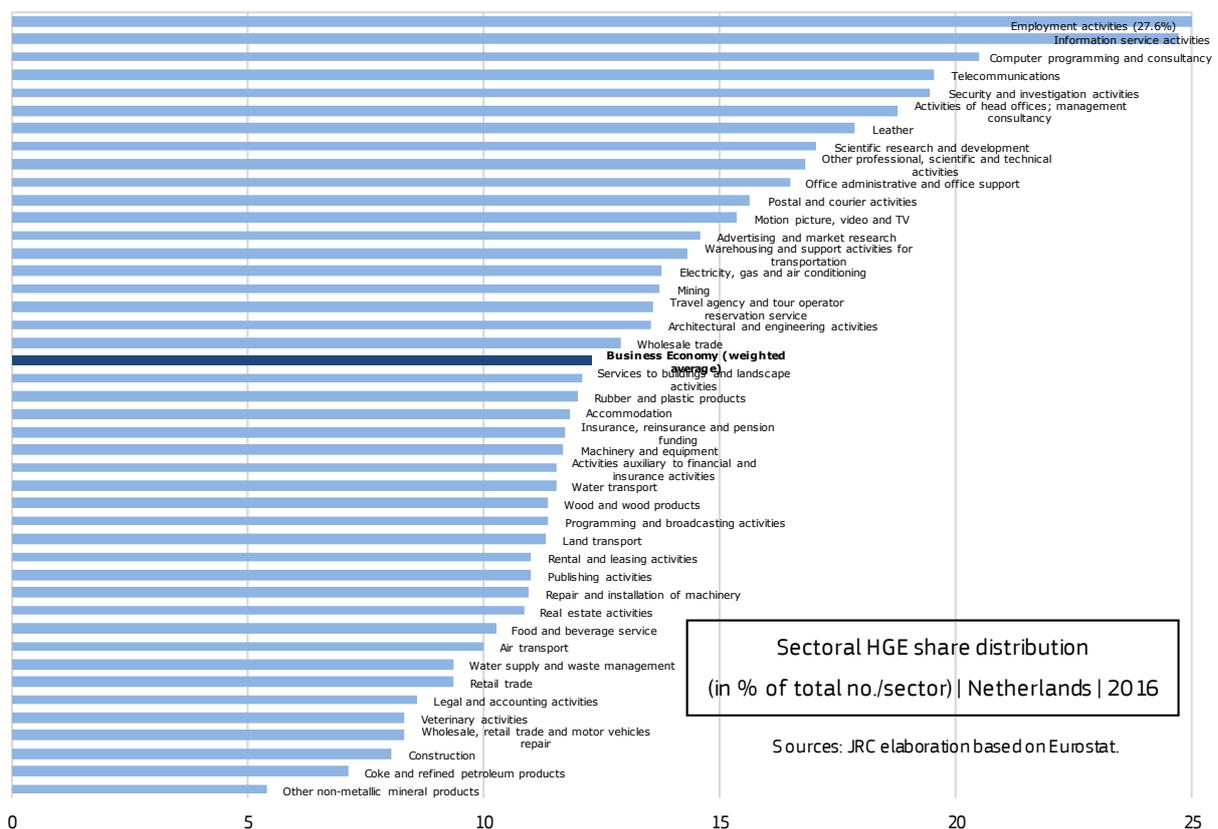
‡ Dialogic (2015). [Meta-evaluation innovation and entrepreneurship policy mix](#). Commissioned by Min. of EAC.

2. HGE indicator framework



- NL performs above the EU average for almost all indicators, especially those related to business framework conditions favourable to high-growth, except for later-stage venture capital and SME access to loans.
- The overall positive regulatory environment stands out as particularly above average.
- As far as financing growth is concerned, the relatively higher use of equity finance by Dutch start-up SMEs contrasts with the below average score for access to loans.
- Other indicators on which the Netherlands performs well above the EU average are HGE average size, SME innovators, linkages among SME innovators and most innovative regions.
- Something worthy of further investigation is why, for such an overall positive indicator fingerprint, the HGE employment share is barely above average.

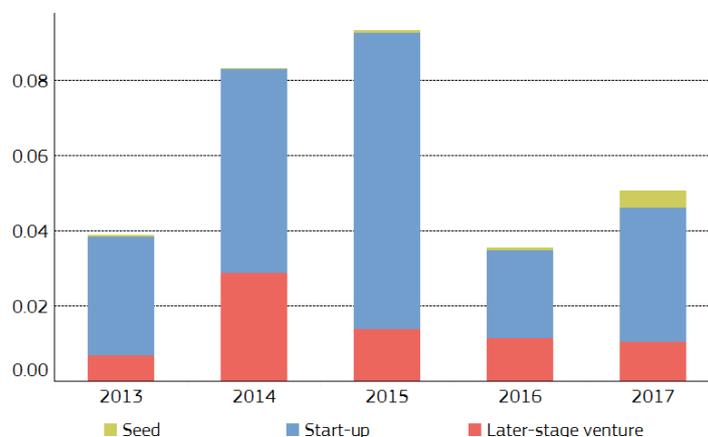
3. Firm demographics and sectoral decomposition



- The average share of HGEs in the Netherlands is around 12% across the business economy, ranging from 5.4% in other non-metallic mineral products to 27.6% in employment activities.
- The highest shares of HGEs are found in knowledge-intensive and high and medium-high tech manufacturing industries, particularly in ICT and research-related sectors in addition to employment activities.

4. Financing HGEs and start-ups: the role of venture capital

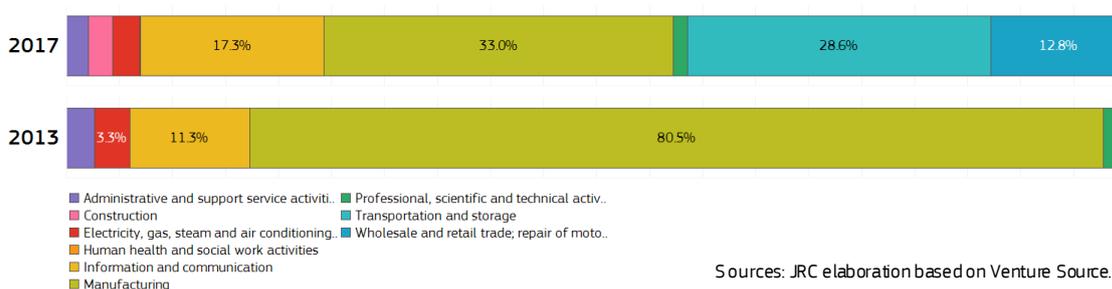
Venture capital by stage of financing (in % of GDP) | Netherlands | 2013-2017



Sources: JRC elaboration based on Venture Source.

- Between 2013 and 2015 the Netherlands experienced a large increase in Venture Capital investments. Following a sharp drop in 2016, VC volumes picked up again in 2017.
- By far the largest share of VC investments are made in startups. The availability of VC for later stage ventures and for seed capital remains limited.
- This is in contrast to e.g. the UK and to a lesser extent Germany where investments in later stage ventures take up a considerable larger share of VC funding.

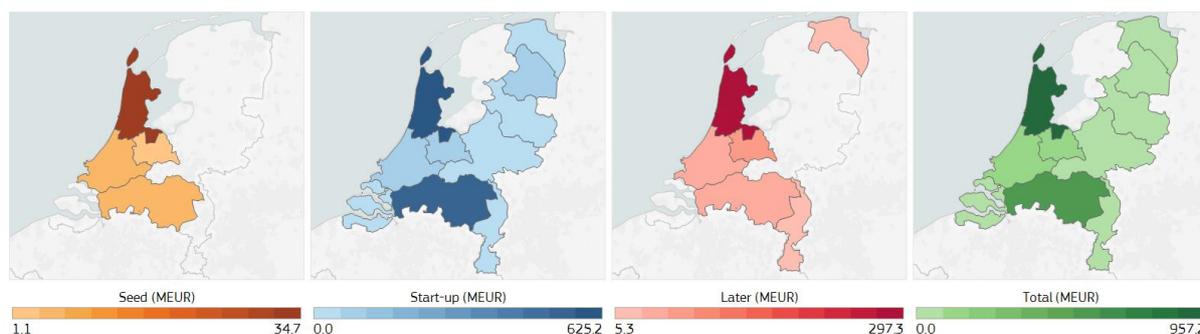
Sectoral distribution of VC investment (in %) | Netherlands | 2013 & 2017



Sources: JRC elaboration based on Venture Source.

- In period 2017, the sectoral distribution of venture capital investments is diversified, but certain sectors receive most investments, such as manufacturing, ICT, and transportation
- The sectoral distribution of venture capital investments can change substantially across time noting how in 2013 investments in manufacturing received over 80% of total VC investments compared to 33% in 2017.

Regional distribution of VC investment by stage of financing (in MEUR) | Netherlands | 2013-2017



Sources: JRC elaboration based on Venture Source.

- Over the period 2013-2017, there is a concentration of venture capital in North Holland and Brabant across most stages of financing.
- The start-up stage funding is most distributed across regions in the Netherlands and as shown in the first figure of section 4 comprises the main share of VC funding.

5. Finance-related policy measures

Instrument	Type	Target population
Dutch Venture Initiative (DVI)	Funds-of-funds, executed by EIF	Fund managers, active <i>at least</i> in the Netherlands
Seed Capital Funds	Funds	Dutch fund managers
Growth facility	Guarantee	Banks + investors
Innovation Credit	Credit	HGIEs
Qredits	Credit	Small SMEs

- The DVI –I is a ‘later stage venture capital’ funds-of-funds launched in 2013 which focuses explicitly on HGIEs. DVI-I committed €193m (95.5% of its €202.3m funds-of-funds budget) to 14 funds; the total volume of these funds amounts to €1.6 billion. The percentage of ‘private’ investment (also including equity provided by other governments) is 88%. In 2014, the Dutch government decided on an additional injection of €100m euro (DVI -II), for the purpose of stimulating early phase investments by business angels and private equity parties.
- The Seed Capital Fund focuses on high-tech or creative entrepreneurs. It provides public venture capital investment funds. The scheme improves the return-to-risk ratio for investors. Seed Capital funds can finance a maximum of 50% of their investments via loans from the Seed Capital instrument. In practice, these funds have obtained 51.5% from private investors.
- The Growth Facility: this *guarantee* covers maximum 50% of risk funding provided by banks or private equity investors
- The Innovation Credit supports development projects with high risks. Companies using the Innovation Credit pay back the loan if their project is successful, otherwise the loan can be converted to a grant.
- Since 2009 the Ministry of EA has been supporting the availability of microfinancing, as executed by the non-profit Qredits Microfinance Institution. Qredits offers credit of up to €250,000, and also provides services like coaching, mentoring and helping with credit requests previously denied by banks.

Annex: HGEs indicator framework details

Indicators	Details	Motivation
HGEs indicators		
HGE employment share	Percentage share of employees among HGEs in 50% 'most innovative' industries relative to total employment (EIS; 2018)	Measures contribution of HGEs to employment creation
HGE number share	Percentage share of HGEs of total enterprises with at least 10 employees (Eurostat; 2016)	Measures how many firms are HGEs
HGE average size	Average size of HGEs (employment definition); employees divided by number of HGEs (Eurostat; 2016)	Measures average size of HGEs, an indication for future job growth potential
SME innovators	Share of SMEs with product, process, marketing or organisational innovations or innovating in-house among all SMEs (EIS; 2018)	Existing SME innovativeness as predictor for future innovations
Financing HGEs indicators		
HGE availability of finance	Percentage of HGEs considering the availability of finance is not an investment barrier (EIBIS; 2016-2018)	HGEs access to finance is considered a precondition for the development of HGEs
Venture capital seed	Share of seed venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
Venture capital start-up	Share of start-up venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
Venture capital later stage	Share of later stage venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
SME access to loans	EIF SME Access to Finance Sub-index for loans, comprising the use and cost of loans (EIF; 2018).	SME access to loans is an important framework condition indicating the access to loans for HGEs
SME access to equity	EIF SME Access to Finance Sub-index for equity, comprising use of equity and the sophistication of the equity market (EIF; 2018)	SME access to equity is an important framework condition indicating the access to equity for HGEs
HGEs framework conditions indicators		
HGE human capital	Percentage of HGEs considering the availability of staff with the right skills is not an investment barrier (EIBIS; 2016-2018)	HGEs access to human capital is essential for the development of HGEs
HGE labour market regulation	Percentage of HGEs considering the labour market regulation is not an investment barrier (EIBIS; 2016-2018)	HGEs may be constrained by existing labour market regulation
HGE business regulation and taxation	Percentage of HGEs considering the business regulation (e.g., licences, permits, bankruptcy) and taxation is not an investment barrier (EIBIS; 2016-2018)	HGEs may be constrained by existing business regulation
Entrepreneurial skills	Percentage of 18-64 population who believe to have the required skills and knowledge to start a business (GEM; 2018)	HGEs may require entrepreneurial spirit, skills and knowledge
Innovative entrepreneurship	Ratio between improvement-driven and necessity-driven entrepreneurship (EIS; 2018)	Countries with high relative prevalence of improvement-driven opportunity, and entrepreneurship tend to be primarily innovation-driven, thus conducive for HGEs
Linkages among SME innovators	Innovative SMEs collaborating with others, public-private co-publications and private co-funding of public R&D expenditures (EIS; 2018).	Quality of innovations increases with collaboration and provides information on sophistication of SME innovation ecosystem, thus related to HGEs.
Most innovative region	Relative performance of most advanced region in the Regional Innovation Scoreboard within each Member State vis-à-vis the best performing regions across all other Member States (RIS; 2017).	HGEs innovation ecosystems tend to be concentrated in most innovative regions/centres.

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