“Position Paper on business transfer at EU level”

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Executive Summary

Based on the work done during the implementation of C-TEMAlp, on the several contacts occurred at regional, national and European level with policy makers and officers dealing with the topic of entrepreneurial and economic development and on the feedback collected by the subjects directly involved in Business Transfer at local and transnational level, this document recaps the potentialities for policy actions to be implemented to support the continuity of companies in an international environments, starting from the community setting up in the Alpine Space area.

Apart from some general interventions, necessary to improve the framework conditions and not already in place in a harmonized way in the interested counties, some other recommendations are very much linked with the results of the testing phase implemented by C-TEMAlp partners and refers to how the C-TEMAlp network, already established at Alpine Space level, can be further enlarged and can offer its services in a more efficient way.

Moreover, after having defined the context and the current situation, an overview of policy options on the table is provided and some proposals for concrete policy actions are suggested.

In the conclusion we remind also the results already obtained both in terms of practices and policy programs launched. These refer to different contexts and geographical levels starting from the national program launched in Slovenia and arriving to the possible inclusion of business transfer support activities within the optional actions of the Enterprise Europe Network consortia, within the 2019 contracts.
Background

Context and importance of the problem

Today, the European Union hosts 20 million of SMEs, representing 99.8% of enterprises, employing 67% of all workers and contributing with the 58% to the European gross value added. Among these, each year, approximately 450,000 firms are transferred across Europe, affecting around 2 million employees.

A 2011 study by the Commission on “Business Dynamics” measured the impact of non-efficient transfer of businesses on job creation and business births in Europe: it concludes that Europe is losing approximately 150,000 firms representing 600,000 jobs a year due exclusively to inefficiencies in business transfers. The smallest businesses are the most vulnerable to failed transfers, considering that they are often closely related to their owner’s skills and personality that are not easily transferable.

Another important aspect highlighted by the study and to be considered is that, overall, transferred companies have a better survival, turnover, innovation and employment rates than start-ups.

The European Commission has been the first institution that really fronted the business transfer problem in Europe (apart some far-looking national approaches, like for example in France). Actually, during the last 30 years, the EC has been pointing out the Business Transfer evolution through research, Communications, dedicated Expert Groups - and connected Reports - and focused brochures, not forgetting to include it in the initial Small Business Act and in its updated version.

Some of the main outputs of its contributions are the followings:

- The European Commission Recommendation of 7 December 1994 (94/1069/EC) on the transfer of small and medium-sized enterprises, highlighted a number of possible actions in different areas because several thousands of enterprises were facing problems connected with their transfer. Such problems had effects on employees, creditors and the whole community. In that occasion it was pointed out that about 1 out of 3 transferred businesses closed after the formal hand-over. This was due not to the – usual – external market difficulties, but to the internal - late or bad - management of the transfer.

- After this first, historical document, the European Commission has set up, during the years, some specific Expert Groups to analyse the topic, like the BEST Expert Group (2002) and the MAP Expert Group (2003). In order to give some guidelines to the Expert Groups, the Commission designed a table with some potential improvement measures, mainly legislative ones, to be checked all over Europe. Moreover, some first estimate figures of the phenomenon impact on the economic environment, mentioned above, were given.
In the following years the European Commission produced some more documents, as follows:

- in 2006 the European Commission Communication “Transfer of Businesses - Continuity through a new beginning“ pointed out that up to 690.000 SMEs were affected by the problem every year in Europe;

- in 2008 the Business Transfer topic was included in the Policy principle 1 of the Small Business Act (then reinforced in the 2011 Small Business Act Review);

- in 2009 the “European Chart for small businesses - A selections of good practices for 2009” was edited;

- in 2011, the Business Dynamics study, defined the term as follows:
  - business transfers refer to the process where "all assets representing in their totality an enterprise as a going concern are transferred to a new owner";

- in 2012 the “Facilitating Transfer of Business” brochure said Business Transfer is “a transfer of ownership of an enterprise to another person or enterprise that assures the continuous existence and commercial activity of the enterprise”. Concluding its work, the expert group made the following proposals, which concern the provision of support measures:
  - creating a European business transfer centre, a virtual European platform to coordinate information gathering, share best practices across Europe, and facilitate cross border cooperation. Similar centres should also be created at national level;
  - creating a European sellers’ and buyers’ marketplace in connection with the business transfer centre, to link up existing national databases and encourage countries that do not yet have such databases to set them up.

Also, some new projects and initiatives, coming from various European Union calls for proposals, were directly or partially dealing with the topic. This fact supported the issue analyses, therefore promoting the development of some new good practices, generally developed and run on the field.
Analysis

Current situation

In 2013 a newly appointed Expert Group brought in a new vision, proposing a new approach that encompass the following aspects:

a) on the single business side, it emphasized the human, emotional and psychological role, as very important in the business transfer process; and it suggested a consequently new consulting approach;
b) on the knowledge side, it proposed to deepen a statistical approach, by building up a harmonized Observatory;
c) on the marketplace side, it promoted a unitary view of the different do-it-yourself local approaches;
d) on the awareness and theoretical side, it analysed - also thanks to some focused case histories - what had happened and was changing in the market, including the C-TEMAlp focus of cross-border transfers.

The basic new vision was that Business Transfer should not be seen as the usual threat, a short-term event, which could waste jobs after business founders retire. On the contrary, it should be seen as a long-term process. Moreover, being also an on-going, evolution process, which can be linked with the market and with the consequent business evolution, Business Transfer should be seen also as one of the phases in the business life cycle.

This was indeed the starting point of C-TEMAlp project and, what this implies with reference to the policies on business transfer, is that they need to be re-focused to address the problems faced by SMEs in a wider set of circumstances than has previously been envisaged.

This should include a more fluid conception of Business Transfer, as something that happens throughout the development of a business, rather than as an event associated with the retirement of the owner or other extraordinary, not foreseen, events.

Also, on the topic of definitions, the Expert Group calls for the European Commission to provide a shared definition of the term ‘Business Transfer’. For the purposes of enterprise policy, the Expert Group gave the following recommendation:

‘a Business Transfer is the process of transferring, for any reason whatever, the controlling interest in the business of an SME, by means of a transfer of either shares or assets. It is usually accompanied by a change in the management of the firm’.

As a final aspect, the ‘transfer problem’ should not be characterised primarily in terms of the potential effects on employment, which could be uncertain. Instead, the policy issue should be placed within the context of European Union objectives of promoting smart, sustainable and inclusive growth. The
opportunities presented by transfers should be highlighted, particularly where they are an occasion for a re-structuring of productive assets and resources within a market.

Again, this is very much in line with the C-TEMAIp approach and constitutes one of the basic elements from which C-TEMAIp implementation started: in fact, the project puts its focus on the main aspects described below:

- Business transfers are **standard in the business life cycle** as well as in the entrepreneur’s life cycle;
- It is difficult to know the real data about business transfers as there is no common definition throughout the EU. The lack of reliable descriptive and predictive data on business transfers results in a lack of support from governments to produce and implement specific policies to facilitate business transfers;
- Within this context, it becomes clear that there is a lot of potential value in **creating a common approach**, methodological tools and indicators, leading to the development of a regular common monitoring mechanism for business transfers in Europe.

Moreover, we have also recognised the existence of some common trends in Member States:

- An **increased importance of business transfers** as a policy issue, due to the high and rising number of transfers within the years to come;
- An **increasing number of business transfers** that will take place outside the family to third parties;
- An **increasing number of entrepreneurs** that will only stay in the same enterprise for a shorter period, not a life time;
- Personal decisions (early retirement, change of profession, interests or in the family situation, etc.) and changing competitive environment (changing markets, new products, new channels of distribution, etc.) and **not only age will increasingly be the trigger for transfers**.

Business transfers, and more especially transnational business transfers, are furthermore facing common challenges, like:

- Finding a way to **match the preferences** of buyers and sellers;
- Building trust to overcome information asymmetries between the sellers and buyers;
- **Facing emotional and psychological issues** for the sellers and buyers, which could be different in small and large companies;
- Dealing with **legal and tax issues in transnational business transfers environments**;
- Understanding the importance of **planning ahead** the business transfer and to have a correct valuation of the SME beforehand;
- For transnational business transfers, it is also necessary to overcome **cultural and linguistic barriers**.
Finally, as a result of the first, analytical phase of C-TEMAlp, some common basic characteristics, identified and shared by all the Regions are:

- the hidden potential of companies that could be well transferred, but their transferor/owner do not consciously perceive the issue;
- the current potential of companies that are actively engaged with the issue of business transfer;
- the importance of focusing on SMEs, representing both the majority of companies experiencing the process and the focus of C-TEMAlp;
- the fact that often SMEs do not have access to intermediary services, especially in relation to international business transfer.

Another topic that C-TEMAlp focuses on, was the potential of the innovation factor to positively impact the chance of a successful business transfer. This is also more important in a transnational environment, where the capacity of the company to continue producing profits is very much relevant and linked to its innovation capacity. Associated to this, some interesting inputs came also by the work done in the project (see the International Business Transfer Discussion Paper by Frank Bau, Katrin Schillo, Eva Roher – HTW Chur), aiming at the definition of the best approach for cooperation among the business support organisations involved as service providers. A couple of elements, related to the company’s life cycle, need to be taken into consideration:

- first, the company should never stop to prepare itself for a pitch in front of potential investors. This means the company should never leave the part of the start-up behaviour where the exit options are always at the top of the entrepreneur priorities;
- second, to be consistent with this approach, the company needs to be always ‘future oriented’ nurturing the potential for further growth and continuing its innovation activity.

Both elements lead us to conclude that all the
actions that can connect young companies and entrepreneurs in their initial stages with traditional companies that are dealing with the business transfer phase, are fundamental to raise the chances of success of the process.
Policy options

Range of Policy options

If we look at all the analysis by the different Experts Groups that have been launched by the European Commission since the late '90, we can recognise that the following main areas remain very high in the priority list of policy interventions:

a. **Awareness** raising measures (focused on information, sensitization, open confrontation amongst different involved operators);

b. **Legislative** measures (for legal, tax, financial support);

c. **Training** and management measures (like seminars, meetings and conferences, focused surveys);

d. **Market exchange** facilitation (focused marketplaces).

The other topic that needs to be underlined is the necessity of a consistent thread of **statistical data** to be used also in order to evaluate the results of the policy actions implemented.

In October 2018, the project has held its final conference, presenting the project to an European panel of stakeholders in Munich. Thanks also to the ideas taken from the discussion held on that occasion, in the foreseeable future, the partners agreed on the following actions:

- Jointly promote business transfer services **awareness campaigns and information initiatives** in the Alpine Space area;
- Mutually cooperate to exchange information to the benefit of potential sellers and buyers in the Alpine space area;
- Provide common and harmonized standards in the provision of mentoring services for companies;
- Actively cooperate to **sustain the business transfer policies** at European level.
In order to sustain the business transfer policies at European level, C-TEMAlp consider the five areas listed above as the most important lever to work on, in order to create an environment that could positively impact on the success rate of business transfer processes, in particular for the SMEs of the Alpine Area.

Among these, and thanks to its comprehensive exploration made on the different territory involved, it is now possible for C-TEMAlp to identify and suggest some concrete measures that should be promoted and implemented to reach the common aim and to improve the outcomes of Business Transfer processes in the Alpine Area.
Policy recommendation

What kind of policy options to be implemented

As stated before, the interest of the European Commission and the EU Members States on the topic of Business Transfer is not new and at all levels many documents have been published trying to create a single framework of what could be done to support the process at European, national and local level.

C-TEMAlp has addressed the topic taking into consideration all the steps already done and, also, looking at the specific situation existing in the Alpine area, thanks to the involvement of strong players, operating in this area and that are contributing to support this process in the SMEs, as well as the SMEs themselves.

On this basis, and thanks also to the discussions held publicly in the two events organised and individually by the project partners with their contacts with policy makers, the following list of possible actions to be implemented has been depicted. These actions could be considered as part of the agenda that public administration at European, national and local level need to take into account when considering how to proceed to support SMEs in the business transfer process.

Before all and starting from the European level, C-TEMAlp strongly support the request coming from many stakeholders highlighting the need of a consistent thread of statistical data collected at European level. This approach could eliminate the problems, occurring today and experienced also by C-TEMAlp, when we try to compare the situations and the effects of different initiatives on the topic. Moreover, harmonised data could be used also in order to facilitate the evaluation of the policy actions implemented.

Then, coming to the legislative area of interventions:

1. first of all, we support legislative measures that can be implemented both at European and national level, aiming to reach a general simplification of the legal rules related to the Business Transfer process, here the literature is very much developed. More in details:

   a. The European level could push a set of intervention based both on the state of implementation of the European Commission recommendations and the results of different international projects such as, for instance, BTAR - Business Transfer
Awareness Raising, INBETS – Innovative Business Transfer Models for SMEs in the BSR, STOB regions - Succession and Transfer of Business in Regions and EU4BT – EU for Business Transfer.

b. At national level, more efforts should be put on the introduction of tax reliefs and other financial facilities for investors interested in business transfer. Moreover, legislative innovations could include the definition of a special, reserved path for Business Transfer, releasing permissions and accompanying smoothly the involved buyers and/or sellers.

c. At national and local level, the focus should also be on existing public measures that, even if not specifically designed for Business Transfer, could be used to foster the process such as innovation voucher or incentives for networks/aggregations (used to foster the process for both potential sellers and buyers), or the incentives foreseen for internationalisation (for potential buyers). Additionally, also national and regional financial agencies, that already offer specific products, such as public guarantees, specific incentives for companies in an investing phase, etc., could be pushed to reinterpret their products with a greater focus on Business Transfer.

Concerning the following areas of interventions, we considered together awareness raising and training support measures: in this case different activities can be promoted, again using a wide set of existing approaches. This kind of interventions have a plus in the fact that it is easier to work within frameworks that are already defined, anyway, it would be important to give those measures a specific 'Business Transfer flavour' in order to make them more recognisable by the potentially interested beneficiaries.

First of all, the whole set of awareness measures that can be implemented to this aim, need to consider a large array of target groups. In addition to entrepreneurs, in both roles of sellers and buyers, also financial institutions, intermediaries (such as Business Support Organisations, Chambers of Commerce), consultants' aggregations (such as fiscal consultants associations and lawyers' associations) and decision makers have to be considered.

Some concrete examples are the following:

1. The main aim of all the awareness campaigns shall be to show the testimonies of successful entrepreneurs that positively concluded the process. Policy actions can therefore support through:
   
   - providing intermediaries with financial support for the implementation of such campaigns;
   - fostering the harmonisation between the local and national initiatives and, furthermore between the national and European ones, promoting for instance coordination units at national/European level.

2. Specific measures could be addressed to the identification and promotion of trusted third party. This will be really important in order to help sellers to begin the business transfer path accompanied by an institution/organisation they know, they trust and that could show a sort of accreditation to operate in that particular and very sensitive area. The policy action can be the setting up of an accreditation system/label for business transfer.
3. Trusted third parties need to deliver high quality and personalised services in a confidential way. To achieve this, it would be useful to launch, on the different territories, actions aiming at rising the quality of the offered services, facilitating also upper level connections to ensure at most the synchronisation of activities when it comes to the international level. This could be done with policy initiatives favouring the setting up of transnational business transfer expert’s training paths and the connections among the service providers at international level.

4. Acting at transnational level, language and culture are aspects to be managed. Aiming to reinforce transnational business transfer also beyond cross border relations, here the possible policy action is analogous to the one described above but focusing mainly on these topics. In this sense for instance, a possible action can aim to favour the launch of transnational training moments focused on removing cultural barriers in business transfer.

Finally, in order to facilitate market exchange, policy actions should target at level up some of the methods and practices already working at local/national level. In this case the main interventions could aim to federate resources such as:

Main players;
Networks;
Online platform and, more generally, marketplaces;
Experts and advisors.

Such initiatives could start with an institutionally based mapping exercise and evolve in the definition of transnational measures fostering the development of organised transnational networks based on the C-TEMAlp approach:

- single set of services;
- online platforms dialoguing with each other;
- transnational network of business transfer advisors.

To conclude this chapter, other two topics, that could inspire policy actions, are worth to be mentioned. The first one regards the fundraising issue while the second one concerns the link with wannabe entrepreneurs and start-ups.

C-TEMAlp already identify the possibility to adapt or re-create existing financial support tools to be more recognisable and easier to be used in the Business Transfer process. This brought to open a wider debate on financial support and highlights the need for a new finance culture in which the operators are more open to consider new forms of financing in respect to the peculiar aspects of companies involved in the business transfer process.
This aspect arose several times in the public discussions held within C-TEMAlp but no specific answers were found. If the policy makers have nowadays recognised the importance of favouring successful business transfer processes, it must become important also to define measures aiming to change, in this sense, the approach that financial intermediaries have today in respect of this. Even if some new initiatives indeed have been started in the private sector (some of these initiatives were presented during the second round of C-TEMAlp AlpCafé), it is now time to boost this tactic, spread the use of these innovative tools and involve also public financial players in this field, trying to establish a new financial culture.

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<th>Level</th>
<th>Action</th>
<th>Implementing body</th>
<th>Beneficiaries</th>
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<tr>
<td>European</td>
<td>A consistent thread of <strong>statistical data</strong></td>
<td>European Commission</td>
<td>Policy actors at national and regional level, service providers, companies</td>
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<td>European</td>
<td>Sustain intervention based on:</td>
<td>European Commission</td>
<td>Policy actors at national and regional level</td>
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<td></td>
<td>- the current level of implementation of the <strong>EC recommendations</strong>;</td>
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<td>- the <strong>results</strong> of other international projects</td>
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<td>National</td>
<td><strong>tax reliefs</strong> and other <strong>financial facilities</strong> for investors interested in business transfer</td>
<td>National Governments</td>
<td>Buyers</td>
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<td>National, Regional</td>
<td><strong>Adapt existing public measures</strong> that could be used to foster BT, such as:</td>
<td>National and Regional governments</td>
<td>Sellers, buyers, service providers</td>
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<td>- incentives for internationalisation - financial instruments</td>
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<td>European, National, Regional</td>
<td><strong>Support measures for awareness raising and training campaigns</strong></td>
<td>European Commission, National and Regional governments</td>
<td>Sellers, buyers, service providers, experts</td>
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<tr>
<td>European, National, Regional</td>
<td><strong>Accreditation system/label for identification and promotion of trusted third party.</strong></td>
<td>European Commission and National governments</td>
<td>Service providers</td>
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<tr>
<td>European, National</td>
<td><strong>Transnational business transfer expert's training paths and connections among the service providers at international level</strong></td>
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<td>European, National</td>
<td><strong>Transnational trainings</strong> to overcome cultural barriers**</td>
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<tr>
<td>European, National</td>
<td><strong>Foster the development of organised transnational networks</strong></td>
<td>European Commission and National governments</td>
<td>Service providers, experts</td>
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Table 1. Summary of policy measures

As a final topic we would like to introduce and focus on the ongoing discussion about the possible linkages between entrepreneurs that are selling their company and wannabe entrepreneurs or young start-ups that could act as the external successors in the Business Transfer process.

Since the beginning of the project, C-TEMAlp partnership considered the possibility to link new companies and established ones in the business transfer process. This was related, on one side, to the possibility to inject innovation in the company to be sold, in order to increase its market attractiveness. On the other side wannabe entrepreneurs or start-ups can be interested in using the innovation capacity of the potentially acquired company.

The first point of view was fully encompassed since the project design phase and remains one of most interesting topics we discussed during all the C-TEMAlp implementation. However, when we tried to implement a pilot measure aiming to create these positive connections, the feedback and outcomes were not that much encouraging. Nevertheless, this aspect was introduced several times during the analytical phase of C-TEMAlp and last mentioned also during the C-TEMAlp conference held in Munich, in October 2018.

In practice the partnership identified some programmes developed at local level promoting the “adoption” of start up by entrepreneurs, to support their growth. What we are proposing here is the other way around: supporting wannabe entrepreneurs or young start-ups in the adoption of existing companies already in the business transfer process. In this case, we strongly support the launch of policy measures specific for these initiatives such as, for instance, the establishment of incentives for adoption programmes, giving financial support to the wannabe entrepreneurs for the acquisition process.
Conclusion

Even for Business Transfer, the issue of planning has become a must for all the traditional companies that would like to remain competitive in the current global market scenario. Small companies and traditional entrepreneurs are used to manage their daily business and they are reluctant to plan in advance their exit. This causes a great pitfall, because a strategic planning and asset evaluation made in advance would very much multiply the possibilities to increase the company's value and to attract foreign investors.

In order to let companies be aware of what is needed, several kinds of intervention could be arranged as policy measures at different levels. Some of them have been highlighted, during the project implementation, by the stakeholders mobilised. Other had been discussed and presented during the public events organized in the framework of C-TEMAlp.

Surely C-TEMAlp has contributed to keep the interest on the topic high but, at the same time, it has been possible to recognise that a long path is still in front of us.

The advice that comes out from the lively discussions occurred during the closing internal and public meetings held in Munich in October 2018, is double fold:

1. To continue to operate at policy level to reduce the gaps still in place when it comes at harmonising approaches and supporting transnational business transfer;
2. To concentrate a new effort on the preparation of companies and the linkages with innovation mostly in terms of connecting companies (start-ups and traditional ones) in a cross fertilization approach.

If those represent our expectations for the future, nonetheless we have to report also the concrete results obtained during the project implementation. In this regards it is worth notice two aspects:

a) The fact that Business Transfer has been added to the Annual Guidance for the preparation of 2019 contracts of the Enterprise Europe Network consortia. For the first time the activity aiming at supporting Business Transfer appears as an optional one in the service package of Enterprise Europe Network, thus recognising the importance of the topic and the need to have a structured answer to this issue. For C-TEMAlp this is an important result since we have succeeded in raising the awareness of the European Commission services in order to obtain this inclusion. In a medium-term perspective this will also allow C-TEMAlp to use the strengths of Enterprise Europe Network to further structure the assistance network implemented during the project life;

b) In this respect, the C-TEMAlp partners belonging to the Enterprise Europe Network agreed to make every reasonable effort in order to guarantee a mutual networking cooperation for the support of Business Transfer services within their own activities in EEN for the sustainable definition of common cooperation standards in relation to Business Transfer services for companies, mentoring services and exchange of information for possible matching activities between buyers and sellers. These common objectives will include:
   i. Serve SMEs even with specific support services for innovation and diversification processes in view of potential Business Transfer;
   ii. Adjust the Business Transfer services for the matching at transnational level;
iii. Gain the capacity to deal with potential lists of international companies. These objectives will be reached also through the proposal for the setting up of a specific EEN Working Group on Business Transfer. All these aspects have been included in the proposal for the 2019 grant agreement with the European Commission by the Friend Europe consortium (including Veneto Innovazione S.p.A. and coordinated by Unioncamere del Veneto) and shared with the other EEN members within the partnership. A further promotion took place during the Annual Conference of EEN, held in Vienna in October 2018, where IHK Munich presented the C-TEMAlp approach during one of the workshops (Enterprise Europe Network: the indispensable partner in the regions – Jessica de Pleitez and Alexander Lau – IHK Munich and Enterprise Europe Network, Germany).

c) The work done in Slovenia by our local partner have had a great impact on the national policy level so that the Ministry of Economy, after having carefully followed the project implementation (also by participating in the meetings) and thanks to what has been developed by C-TEMAlp, it has launched a Business Transfer support program.

As a final remark on policy implications we cannot forget to mention that the cross- and trans-national cooperation is essential to valorise mutual competences, fasten networking processes and avoid structures duplications (competence and capacity building). As an example, the Styrian Business Transfer supporting system was already very mature and experienced and now, thanks to the C-TEMAlp activities, their services are open and free for all the network. This is particularly important for areas like Maribor that are geographical close but have not yet gained such a maturity level of services. There is no need in this case to start from scratch as they can simply use their neighbours’ well-developed network and services.

This is one the main effects C-TEMAlp has provided: connecting service providers and support system throughout the Alpine Space Regions it has, for the first time, enabled a closer cooperation that will surely positively impact business transfer. What we need now is that also the policy intervention can be carried on in such a way that, following the example of Slovenia, other areas continue the implementation of measures to support the reaching of our common goal.