Racing for economic leadership
EU and US perspectives
- debt versus equity -

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Equity culture much stronger in US

VC investments by country of portfolio company, % of GDP

Lagging behind key peers

Untapped potential for VC in Europe

European VC market is heterogeneous across countries

*2018, or latest available year.
**2014-2018 average, if available.
Source: Invest Europe, OECD (2018b)
Equity culture much stronger in US

VC: Average fund sizes

There is a group of US VC funds that is significantly larger than European peers.

Expanding globally, often leading European funding rounds in digital tech.

High relevance for scale-up / HGE financing.

Average US VC backed company receives 5x higher amounts compared to European peers.

Superior performance of VC backed startups compared to non-VC backed companies (Pavlova & Signore, 2019)

Source: EIF Working Paper 2019/57 (June-2019), based on data from Invest Europe
To remind us: Capital Markets Union as part of the Investment Plan for Europe

Capital Markets Union (CMU):
- Action plan as part of the Investment Plan for Europe: developing and integrating the EU financial markets
- Inter alia: expanding the financing options of European firms – and SMEs in particular
- Concerning SMEs, measures related to
  - Fostering bank lending through securitization
  - Alternative financing sources (eg VC and Growth funds, Crowdfunding, Loan originating funds)

US Small Business Administration (SBA):
- Government agency
- Mission: is to maintain and strengthen the nation's economy by enabling the establishment and viability of small businesses (...)

Source: EIF Working Paper 2019/57 (June-2019), based on information from European Commission
What is needed in Europe?

• Continuous further development of the existing support toolbox in line with market needs (focus on crowding-in!)
• Reboot of the CMU – it’s by far not yet done
• SME Equity:
  • Start-up champions with chance and means to scale up
  • IPOs (in general exit environment considered to be weak according to EIF VC survey)
• SME Debt:
  • Alternatives, securitization
• In general: support of sustainable finance!

An ecosystem is needed that allows the start-ups to grow, to scale-up; and that makes it easier for SMEs to access capital markets.
Thank you
... for your attention!

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http://www.eif.org/news_centre/research/index.htm
Annex
Importance of SMEs
An essential part of the EU economy

SMEs:
- 99.8% of all companies (approx. 23m)
- 90m employees (68% of total employment)
- A heterogeneous group with a range of different financing needs

A bird’s eye view

EIF-backed VC investments

- Geolocation of EIF-backed seed and start-up companies and the VC firms headquarters.
- EIF supported a dense network of VC firms and start-ups, spanning throughout Europe and evolving over time.
- Remarkable features of this network relate to both concentration and dispersion.

Source: EIF Working Paper 2016/034
European VC hubs
The backbone of the ecosystem

- **VC hubs communicate:** consistent cross-investment routes among mature hubs.

- **Hubs originated 83% of all invested amounts.** 63% invested within national borders, 37% cross-border.

- **Through promotion of cross-border oriented VC firms, EIF supports the build-up of an European VC market.**


Note: ‘Spurious’ links, i.e. single investments over the analysed period) excluded from the representation.