Removing Barriers to Venture Capital Investment in Europe: facilitating the growth of innovative internet and ICT firms

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According to the findings of current research, there is a significant gap of venture capital investment between the EU and the US. More specifically, the EU venture capital investments stand for about 25% of that in the US whereas the European companies tend to receive a much smaller amount of money than that in the US. Performance though has started improving but the gap is still widening because the US improves in a faster pace. EU funds returns show less variability than those in the US because the EU is seen by the investors as a less ambitious and risky ground. Possible explanations for this gap according to the NESTA report are the lower returns when successful companies exit and the production of fewer, less valuable ventures due to lack of talent, resources or friendly environment.

Most speakers agreed that one of the most important impediments to venture capital investment in Europe is the unclear view of investors regarding relevant regulations. They consider them complex and uncertain. This uncertainty makes it difficult for investors to manage the regulatory risks. Other interesting points were that the labour market in Europe is relatively rigid thus making it harder for companies to hire and fire and that immigration is very important in order to attract “technical” labour. The policy fragmentation within the EU is an important issue because it is difficult for investors to understand how Europe works as an entity. They understand how the national systems work but they do not have a solid view on what are the rules in the European level and how national rules are streamlined with the European ones. Faced with this regulatory complexity, investors choose to bypass the EU and invest in other places where regulations are clearer. According to MP Philippe de Backer, in the EU, 90% of SMEs are financed by traditional investors like banks whereas in the US this percentage is much lower. He emphasized that an evaluation of the regulatory framework in finance is needed and stated that about 40%-45% of venture capital in Europe comes from the state and goes for regional investments. Mr. de Backer said that Europe is losing expertise in the financial field because it does not sufficiently invest on it and highlighted that Europe needs both small and big companies because if it loses its industrial base, it will also lose in innovation and financial capacity.

Mrs. Anne Bucher emphasized that it is important to create a clear and unified regulatory framework for venture capital at the European level and to see which legal rules are obsolete. Both Mrs. Bucher and Mr. Kleiner admitted that in Europe savings rates are high and both agreed that it is important to address the issue of channeling those savings towards venture capital. Crowd funding and its importance to fund the very beginning of start-ups was also mentioned. Mr. Kleiner emphasized the leadership of Europe in online gaming and the existence of significant technical talent in this field.

Mr. von Gabain stressed out that there is an enormous lack of knowledge among the political class in the EU about how venture capital works. He said that in Europe we have top universities, researchers and entrepreneurs but yet we have not succeeded in creating an ecosystem in which those stakeholders interact.

As far as necessary policy action is concerned, Mr. von Gabain emphasized that policy makers need to change the mindset of the public towards accepting the entrepreneurial risk and to persuade people to invest in innovation. Also, according to Mr. von Gabain it is necessary to make a black list of all the impediments to venture capital in the EU27, to educate people to understand venture capital and to bring together researchers, entrepreneurs and big companies. Mr. Kleiner and Mrs Bucher stated that we need to create a voice for entrepreneurs among policy makers, to educate policy makers to better understand venture capital and to address the fragmentation of regulations towards harmonization. For Mr. de Backer, except of the significance of clear regulations it is also important to educate people and make them fonder of entrepreneurship.

Event notes by Dimitris Drougkas

