

RAISING CAPITAL FOR EUROPE'S GROWTH ECONOMY – TOWARDS ENTREPRENEURSHIP AND A EUROPEAN VENTURE CAPITAL MARKET

Summary: Europe's share of the global venture capital market is small compared to that of the US. In order to improve the entrepreneurial spirit of European companies, all levels of the regulatory structure – local, regional, national and European – need to implement policies aimed at making it easier to access capital in a fast and efficient manner. Venture capital-backed companies have higher growth and employment rates than other companies: with this in mind, and the objective of catching up with our transatlantic partners, the EU has set forth an ambitious plan in this field, the Risk Capital Action Plan (RCAP), with 2003 the deadline for its full implementation.

One year ago, at the Lisbon Summit, the EU set forth an agenda for creating a dynamic, entrepreneurial, knowledge-based economy. Venture capital (more commonly referred to as "risk capital" on continental Europe) was identified as a key factor in achieving this.

In 1999, Western Europe's share of private equity and venture capital invested was 20% (\$26.8 billion; €28.5 billion) of the global total of \$136 billion (€145 billion). In comparison, the USA saw \$97.6 billion (€105 billion) invested.

So there is still much potential for providing funds for investment in our ambitious, innovative, growth companies - and European venture capital companies are making a significant contribution to Small & Medium-sized Enterprises in the EU and beyond:

Figures from the European Venture Capital Association for the first six months of 2000:

- a total of €13.5 billion (£8.6 billion) was invested in 4,630 companies in the EU, Czech Republic, Hungary, Iceland, Norway, Poland, Slovakia and Switzerland by 613 private equity houses
- Specifically in the technology sector, 2,277 companies received a total of nearly €4.4 billion (£2.8 billion) in Europe

- Stage distribution of that investment:

	Amount €	%	Number of companies	%
Seed	385,656	2.9	431	9.3
Start-up	2,124,013	15.8	1,623	35.0
Expansion	4,762,366	35.4	1,883	40.7
Replacement capital	1,116,479	8.3	263	5.7
Buyout	5,081,658	37.7	430	9.3
Total	13,470,173	100	4,630	100

- EU Member State highlights, in order of amount invested:

UK:	€5.4 billion invested	in 808 companies
Germany:	€1.6 billion invested	in 878 companies
France:	€1.5 billion invested	in 879 companies
Italy:	€1.3 billion invested	in 288 companies
Netherlands:	€997 million invested	in 415 companies
Spain:	€498 million invested	in 167 companies
Sweden:	€606 million invested	in 238 companies
Belgium:	€307 million invested	in 249 companies
Finland:	€234 million invested	in 200 companies
Denmark:	€189 million invested	in 70 companies
Austria:	€96 million invested	in 68 companies
Ireland:	€41 million invested	in 53 companies
Greece:	€36 million invested	in 28 companies
Portugal:	€30 million invested	in 42 companies
Luxembourg:	N/A	N/A

Figures from the European Venture Capital Association for 1995-1999

***European VC funds raised and invested
1995-99:***

1995:	€4.4 billion raised, €5.5 billion invested
1996:	€7.9 billion raised, €6.7 billion invested
1997:	€20 billion raised, €9.6 billion invested
1998:	€20.3 billion raised, €14.4 billion invested
1999:	€25.4 billion raised, €25.1 billion invested

Sources of funds raised in 1999:

Banks:	€7.4 billion
Pension funds:	€4.7 billion
Insurance companies:	€3.4 billion
Corporate investors:	€2.4 billion
Funds of funds:	€1 billion

Also, in the period 1991-95, venture capital-backed companies in Europe saw:

- an average 15% rise p/a in employment (compared to 2% for the top 500 European companies).
- an average 35% rise annually in sales (twice as fast as the European top 500 companies).

Next steps

The EU risk capital market has performed much better in recent years but remains small and fragmented in comparison to that of the United States. Although there is no evidence of a generalized market failure, early stage and technology investment remains particularly low. The challenge for policy-makers at all levels of government – local, regional, national and EU - lies in how best to create and support the conditions for this more efficient and effective venture capital market.

The objective for the public and private sector alike must be to boost the “investor readiness” of enterprises. In this context, the quality of management teams, the supply of funds, and legal, regulatory and fiscal structures, must all be addressed. Further development of the EU risk capital market also requires accelerated market integration, the easing of country-specific constraints on efficient market functioning and, more generally, the promotion of a more entrepreneurial culture.

Briefing notes are prepared by the Industry Advisory Committee to the European Parliamentary Financial Services Forum. For further information on the subjects raised in the briefs please contact the Chairman, Members or Secretariat of the Advisory Committee.

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