

INNOVATION AND MEDIUM TO LONG TERM FINANCING: WHAT MORE IS NEEDED?



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Stoking Europe's innovation: the case for intellectual property-backed finance

Early-stage innovative firms face high levels of demand uncertainty and possess few tangible assets - a combination that often excludes them from accessing debt finance. As a result, alternative funding mechanisms such as public grants and equity financing have been developed in Europe. These include support for seed and early-stage innovation through programmes such as Horizon Europe and European Innovation Council (EIC) initiatives, including the EIC Fund and the Scaleup Europe Fund, as well as other EU instruments aimed at increasing the availability of risk capital, such as InvestEU. Through the European Investment Bank Group, EU support is also channelled into privately managed

technology transfer, venture capital, and private equity funds.

As firms move closer to commercialisation, access to additional financing becomes even more critical to support market entry and scaling. Yet it is precisely at the scale-up stage that Europe's innovation financing ecosystem reveals its most significant weakness. European scale-ups raise substantially less capital than their US counterparts: the EU's share of global venture capital fundraising remains modest, and access to debt finance is extremely limited. Financial institutions rarely accept intellectual property assets as collateral due to the difficulties to determine their value and due to the underdeveloped secondary markets where these assets could be liquidated. The Draghi report therefore concludes that Europe relies excessively on bank financing, even though banks are generally ill-suited to finance innovation due to regulatory constraints, risk aversion, and limited capacity to assess intangible assets.

Create enabling environment for intellectual property-backed finance.

Fortunately, the EU possesses another asset it could better leverage in this context: its robust regulatory framework for intellectual property. In particular, the recently launched unitary patent system creates strong policy momentum for building the foundations of an IP-backed finance infrastructure in the EU. To this end, the European Commission committed in the EU Startup and Scaleup Strategy to develop a framework for IP valuation and to expand the evidence base for new IP-backed finance instruments. This represents a crucial step, including the establishment of standardised valuation methods optimised for capital raising, automated tools for initial assessment, a network of IP valuers, and capacity-building initiatives for the financial community.

The Single Market Programme already provides for the possibility to offer direct subsidies for IP valuation through the SME Fund. Future EU grant schemes, like the SME Fund, could also

support financially innovative firms in transforming their intellectual property into bankable, finance-ready asset classes by reimbursing part of these costs. Assisting innovative firms in this journey and strengthening confidence in intellectual property assets within the financial community would foster greater uptake of IP-backed lending across Europe.

Broader use of intellectual property assets in bank lending would make debt finance accessible at earlier stages of company development, when firms are not yet profitable but already face significant investment costs. This would help many IP-intensive firms bridge the so-called "Valley of Death" - the critical phase between innovation and market entry, when firms have moved beyond research but have not yet achieved stable revenues and face a financing gap.

To further mitigate lenders' risks, public guarantee schemes specifically tailored to IP-backed finance could be introduced, alongside efforts to enhance the viability of IP securitisation, IP tokenisation and IP collateral insurance. In addition, facilitating the development of secondary markets would improve liquidity - particularly in cases of default, where intangible assets must be liquidated as part of loan recovery.

The EU Competitiveness Compass, the forthcoming European Competitiveness Fund, and the next Horizon Europe programme all aim to increase investment in strategic technologies. These EU initiatives accompany European projects and firms along the entire investment journey, from research and scale-up to manufacturing and industrial deployment. By simultaneously creating an enabling environment for IP-backed finance, Europe could generate an additional multiplier effect for its most innovative and high-potential firms in times when they need it most.



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Make scaling as simple as booking a flight

When I tell American founders that in Europe you sometimes need 27 legal opinions to scale one company, they look at me as if I'm joking. I'm not. And that's precisely why we need the 28th regime – or, as it has come to be called, the EU Inc.

Over the past months, I've been travelling Europe and the US – from Berlin to Nicosia, from Tallinn to Boston and San Francisco – meeting founders and scale-up CEOs. I wanted to hear directly what is holding them back and what they expect from EU Inc. The message was strikingly consistent: Europe is brilliant at starting companies. We are terrible at helping them scale.

EU Inc. is meant to change that. It would create an optional, EU-wide framework that companies can choose instead of navigating 27 different legal systems. Not as a replacement for national rules, but as a European fast lane.

The most urgent problem it needs to solve is financing beyond the early stage. Seed and Series A rounds are no longer the core bottleneck. The real pain starts at Series B and beyond. When companies need €50, €100 or €300 million to expand, investors suddenly hit a wall

of fragmented company law, diverging insolvency regimes, complex employee participation rules and tax uncertainty.

For medium- and late-stage financing, this fragmentation is deadly. International investors want predictability. They want clear governance rules, enforceable shareholder agreements, EU-wide merger and exit rules, and a dispute system they understand. If scaling a European company means rechecking 27 insolvency systems and navigating legal grey zones in each jurisdiction, capital will simply flow elsewhere.

That is why harmonised company law and a specialised, optional insolvency framework would have the most immediate impact on financing conditions. A standardised corporate form with clear rules on voting rights, share classes and investor protections would dramatically lower transaction costs. Add predictable judicial handling of corporate disputes and you reduce one of the biggest hidden risks for growth capital.

But scaling is not only about capital. It is also about talent. Everywhere I went, founders told me the same story: attracting top engineers across borders is easier than navigating stock option taxation across borders. If we want companies to stay and scale here, we need a harmonised framework for equity-based remuneration, clarity on intellectual property created by employees, and fast-track visa procedures for highly skilled talent. Otherwise, EU Inc. risks solving half the problem.

Europe is brilliant at starting companies, but terrible at scaling – the 28th regime must fix this.

Fundraising and exits are equally critical. Today, a company that wants to list or sell across borders often has to restructure first. That costs time, money and momentum. A unified IPO framework and an EU-wide digital registry, including streamlined KYC for EU Inc. companies, would make incorporation, fundraising and scaling as simple as booking a flight. That is the level of simplicity we should aim for.

There is, however, a political risk. If we design EU Inc. as a beautiful legal construct that only lawyers understand, we will end up with an "SE 2.0" – formally attractive, economically marginal. We already have European legal forms that look impressive on paper but

remain niche and only workable for big companies in practice.

To avoid this, EU Inc. must be built with founders and investors, not just for them. Investors do not fund intentions. They fund structures they can trust. Founders do not ask for perfection. They ask for speed and legal certainty.

A credible first phase over the next two to three years should therefore focus on a powerful core: a single European corporate form tailored to start-ups and scale-ups, harmonised rules on share classes and stock options, fast digital incorporation through an EU registry, and a specialised insolvency option. Additional elements – from a unified IPO framework to talent and labour adjustments – should follow on a clear timeline.

Success should be measured pragmatically. How many high-growth companies choose EU Inc. within the first years? How much additional late-stage capital flows into European scale-ups? Do companies stay and grow here instead of moving to Delaware?

This needs commitment, on the European and national level. We talk endlessly about strategic autonomy and economic resilience. But autonomy begins with economic strength. If our most promising companies leave when they grow up, we are exporting not just jobs, but sovereignty.

EU Inc. is a test of whether the European Union is ready to act like a true single market. If we get this right, we send a clear message: you can start in Europe – and you can scale here too.



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Scale-up financing: using national and European policy levers

Over the past decade, most Member States have significantly strengthened early-stage innovation financing. Public seed schemes, tax incentives, and catalytic public investment through national promotional banks have contributed to the emergence of deeper venture capital ecosystems. As a result, the primary financing constraint in Europe no longer lies at the level of start-up creation.

The structural gap now appears further along the innovation lifecycle. European companies continue to face difficulties in securing large-scale, late-stage growth capital. Compared to the United States, Europe still lacks private capital capable of underwriting large funding rounds, supporting international expansion and sustaining companies through pre-IPO and post-IPO phases. This results in earlier exits, increased foreign acquisitions, or relocation of headquarters.

At national level, improving the financing mix requires mobilising

domestic long-term savings more effectively. The experience of initiatives bringing together public authorities, institutional investors and asset managers demonstrates that coordination failures can be reduced through dialogue and clear allocation targets. By enhancing transparency, setting common objectives and fostering trust among market participants, such frameworks can significantly increase allocations to growth equity and technology-focused strategies.

Nevertheless, national measures alone cannot address structural fragmentation within the European capital market. Divergent insolvency regimes, listing requirements, supervisory practices and taxation frameworks continue to limit cross-border investment and constrain the emergence of genuinely pan-European growth funds. The absence of sufficiently large and integrated capital markets directly affects the financing capacity available to scale-ups.

This diagnosis has been articulated clearly in the Franco-German FIVE report (Noyer-Kukies), which identifies the underdevelopment of European capital markets as a central competitiveness challenge. The report emphasises the need to channel European savings more efficiently into productive investment and to strengthen cross-border market integration. It underlines that reinforcing Europe's capacity to finance scale-ups is not solely an innovation policy objective, but a broader macroeconomic and strategic imperative.

In this context, the interaction between national strategies and EU-level initiatives is critical. National authorities can act on the structural drivers of long-term capital formation. This includes adapting tax frameworks, shaping the development of funded pension schemes and long-term savings vehicles, and engaging directly with domestic institutional investors to encourage greater allocations to venture and growth capital. In France, the Tibi initiative illustrates this approach: the Treasury has worked closely with major insurance groups to secure concrete allocation commitments towards technology and growth funds. Such reallocation does not occur spontaneously; it requires sustained dialogue, policy credibility and a strong operational relationship with long-term investors.

European-level action, by contrast, adds greatest value where scale and harmonisation are essential. Progress towards a more integrated capital market, including convergence of insolvency frameworks and the development of optional regimes such as the "28th regime", would directly

reduce legal and operational barriers to cross-border investment. Strengthening the role of European-level institutions in anchoring large funds can further enhance scale effects.

Over the next two to three years, priority should be given to strengthening Europe's long-term capital base and creating the conditions for larger, more resilient growth funds. This requires accelerating the mobilisation of institutional savings towards late-stage strategies, improving the functioning of equity markets to offer credible exit prospects, and addressing key structural frictions that weigh on scale-ups' valuation and expansion capacity.

**Mobilising institutional
capital is central to
Europe's scale-up
financing.**

In parallel, European action must focus on removing fragmentation and building scale. Advancing the 28th regime, reinforcing the role of the EIF and ETCI 2.0 as cornerstones of the scale-up financing architecture, and delivering concrete progress towards a genuine Savings and Investments Union are essential to increase integration of capital market. In this context, France and Germany are preparing a European initiative, building on the experience of Tibi and WIN and open to other Member States and their institutional investors, with the objective of structuring venture and growth financing with a genuine European perspective.



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Bridging the capital gap: How CEE can power Europe’s next growth wave

As a development bank, the European Bank for Reconstruction and Development (EBRD) aims to create the conditions required for self-sustaining financial markets that can attract private capital in the economies where it invests. Our efforts include policy advice, the development of product solutions and targeted investments.

Since it was established in 1991, the EBRD has committed a total of around €7.7 billion in over 300 private equity (PE) funds across the entire spectrum of growth, buyout, venture capital (VC), mezzanine, private debt, infrastructure and energy transition funds. We launched our own VC fund in 2012 and have since invested close to €300 million across 42 companies.

Our experience confirms that European capital markets are yet to fulfil their critical function of supporting innovative startups throughout their lifecycle. This is particularly the case in central and eastern Europe (CEE), where PE and VC fundraising remains low even compared with European averages. While the availability of

early-stage funding has improved over the last decade, the ecosystem remains dependent on support from international financial institutions (IFIs) and national development finance institutions, and there are only a few privately owned providers of later-stage capital in the region.

Foreign funds still dominate Series B and C and growth rounds, with the result that many successful companies end up moving their headquarters, strategic decision-making and/or exit pathways outside the region – and often outside the EU. Because later-stage financing is mostly foreign, the financial gains from successful CEE companies accrue largely to overseas investors and limited partners (LPs).

Closely linked to this, the CEE innovation ecosystem is still lacking corporate VC and regional corporate champions. In more mature markets, large companies act as strategic investors, LPs in VC and PE funds, and early customers for innovative solutions. Their participation helps to bridge funding gaps, anchors successful companies locally and accelerates their commercialisation.

Two significant challenges need to be addressed if innovative European firms are to realise their full potential.

First, product and service markets (including financial markets) are fragmented as a result of divergent regulations. This is hindering young companies that are looking to scale up across borders in Europe. Speak to any startup operating across Europe today and you will hear myriad anecdotes of days and resources lost to figuring out bureaucratic processes in another market.

Larger pools of liquidity will make regional listing venues more attractive for exits.

To address this, the EBRD has been supporting regional initiatives aimed at consolidating capital markets in the Baltic states and, more recently, the CEE region. The aim of these initiatives is to create a landscape of interconnected local capital market ecosystems. Larger pools of liquidity will make regional listing venues more attractive for exits, including through higher valuations, helping innovative companies to raise funding closer to home.

And second, while Europe (including the CEE region) has ample savings, it lacks

long-term patient risk capital. Private institutional investors, such as pension funds and insurance companies, are currently largely missing from this asset class. In part, this is due to the dominance of pay-as-you-go pension systems. Several countries have experimented with individual mandatory (second-pillar) pension schemes. However, their design has tended to discourage risk-taking. As a result, these funds generated very low returns during the years of near-zero interest rates and have subsequently suffered from policy reversals in some cases. Allowing pension funds and insurance companies to increase their allocations in VC and PE funds would contribute to the sustainable development of the local LP ecosystem. The limited participation of domestic institutional investors also constrains the development of local general partners. Without deeper pools of domestic capital, only a few regional funds will reach scale, reinforcing dependence on foreign capital and pushing founders to pursue opportunities abroad.

To be clear: the small size of the local capital markets in the CEE region is not due to a lack of investable ideas. Technical education is strong, and talent is cheaper and more readily available than in some other countries in Europe.

There is huge potential and capacity for further growth. Developing the ecosystem by aligning regulations and increasing the availability of long-term capital will foster the much needed environment for the success of European innovative companies.



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European scalability depends on investor confidence to close risk capital gap

Despite high savings in Europe, much of this capital remains parked in low-risk deposits, with only 17% invested in securities. Redirecting even a modest share could unlock substantial funding for the transition.

Europe faces an unprecedented investment challenge. Meeting the demands of the energy transition, technological development, defence and infrastructure will require an additional EUR 750–800 billion annually towards 2030 — far beyond public budgets. Mobilising private capital is therefore indispensable.

To achieve this, Europe must reduce capital market fragmentation, harmonise standards across member states, strengthen retail financial literacy and mobilise risk capital. Risk capital is fundamental to innovation, digitalisation and the climate transition. While Europe has functioning market segments, the broader ecosystem — across buy and sell side, primary and secondary markets — must deepen to unlock its full potential. The Nordics benefit from efficient banking, bond and equity markets, yet even here long-term

competitiveness depends on mobilising greater private risk capital to scale projects where traditional financing is insufficient.

Building a stronger local market for risk capital requires active efforts from both financial institutions and public authorities to expand access to venture and growth capital. Closing the risk capital gap for innovation and transition requires addressing key bottlenecks.

First, a strong domestic capital base is essential. Early-stage national financing enables companies to scale and attracts international investors seeking knowledgeable local partners and liquid markets. Strengthening local ownership structures and deepening domestic capital pools are critical to developing high-quality projects, crowding in global capital and safeguarding the competitiveness of the next generation of Nordic and European companies.

Second, capital markets must support companies throughout their growth lifecycle, particularly those outside traditional lending models and reliant on risk-willing equity. Innovation, green industrial solutions and climate technologies are capital-intensive and characterised by uncertainty and information gaps, often leading to market failures that constrain early-stage funding. Despite risk capital being designed to absorb uncertainty, many promising projects still struggle to secure financing in early stages.

Bridging capital market bottlenecks is vital to scaling Europe's transition.

Third, the venture ecosystem must broaden. Expanding the base of limited partner investors and leveraging state-supported fund-of-funds structures can deepen markets and strengthen fund development. Mobilising institutional investors - notably pension funds and insurers - into illiquid alternatives such as infrastructure, private equity and venture capital is also vital to enlarging the capital base.

Experience from the Nordics shows that prudent allocations to unlisted assets and measured increases in risk tolerance can enhance long-term portfolio outcomes while broadening exposure to value creation.

Coordinated public-private initiatives that derisk early phases, crowd in

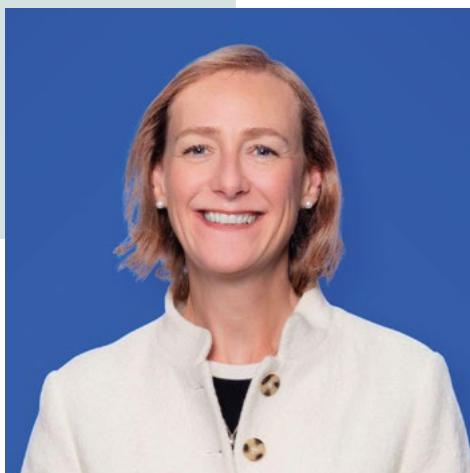
private capital and improve market liquidity are critical to scaling high-quality projects and accelerating Europe's innovation capacity.

Public-private cooperation, risk sharing and predictability are central to strengthening investor confidence and enhancing the scalability of European projects. Instruments such as InvestEU and the European Investment Fund already play an important role in addressing market gaps. Similar collaborative models can provide tangible risk relief, mobilise private capital and streamline growth pathways for emerging companies. Public support should prioritise innovation and crowding-in private investment, with early dialogue, shared expertise and coordinated processes reducing friction.

Coordinated EU-wide procurement mechanisms are also needed for emerging technologies and to retain high-growth companies and the next generation of unicorns, as illustrated by offshore wind and the use of Contracts for Difference.

Predictability remains critical for long-term investment planning. Clear and timely decision-making — particularly regarding simplification — is necessary to maintain investor appetite. Stable, long-term frameworks such as the EU ETS reduce valuation uncertainty. Simplification should ease unnecessary burdens without undermining confidence in pricing mechanisms.

Europe has made significant progress in financing innovation and transition. Scaling remains the challenge. Strengthening predictability, risk sharing and coordinated capital mobilisation is essential to boost competitiveness - without weakening investor confidence.



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Private credit and securitisation to support Europe's innovation agenda

Europe's innovation gap stems from structural features of its financial system, rather than a shortage of talent, as highlighted by Mario Draghi's 2024 report and the European Commission's proposed Savings and Investment Union. While the US funds its technology sector through deep, risk-tolerant capital markets, Europe's traditional, bank-led model has been more risk-averse and less effective at supporting innovation, productivity and new sources of growth. Private credit and securitisation could play an important role in addressing these challenges - provided they are implemented effectively and at scale.

Non-bank channels account for only 12% of corporate funding in Europe, compared with roughly 75% in the US. Securitisation markets are similarly underdeveloped: outstanding volumes total around €11 trillion in the US versus just €1.2 trillion in Europe. European households are also less likely to invest in financial markets, with 30% of their savings held in cash and deposits, more than twice the share in the US.

Europe's private credit market is entering a phase of accelerated expansion, moving

beyond its traditional mid-market focus to finance large, capital-intensive projects. This evolution is illustrated by multibillion-euro transactions including data centre financings, Adevin's €6.5bn private credit refinancing and Funecap's €1.7bn unitranche and capex facility.

We expect private credit assets in Europe to reach €680 - €765 bn by 2028, fuelled by demand from infrastructure, renewables, artificial intelligence and data centres, alongside stronger institutional backing as the market matures. Europe's share of global private credit fundraising rose sharply in 2025, capturing almost half of global flows, although deployment has lagged as large infrastructure projects have been slow to materialise. European insurers, who currently allocate around 10%-15% of investments to private credit on average compared with roughly one-third for US insurers, are likely to increase their exposure over time.

Retail access is also broadening through semi-liquid fund structures offered in private savings products. And, as banks retain less risk on their balance sheets, they are repositioning as strategic partners to alternative asset managers, using origination expertise and private capital to meet demand for flexible financing.

The potential benefits for Europe's innovation-driven sectors are clear. Compared with banks, private lenders can offer more flexible structures – such as annual recurring revenue-based lending, payment-in-kind (PIK) interest and delayed-draw facilities – that may be more appropriate to businesses with uncertain or evolving cash flows. At earlier stages of the investment cycle, subscription lines and net asset value lending for investment funds are increasingly migrating to private credit, as banks retrench under capital constraints.

Europe's private credit market is developing to finance large, capital-intensive projects.

Securitisation could further expand private credit's role as a funding source. Proposed European reforms, aimed at reducing administrative burdens and capital charges for investors, are a step in this direction. In the US, insurers hold around 16% of their investments in securitisations, compared with just 2% in Europe. New rules substantially reduce capital charges for securitisations such as senior CLO tranches but they

remain materially higher than for similarly rated corporate bonds and far above US regulatory levels. Nonetheless, momentum is building, with several European private credit CLOs launched to date.

The expansion of private credit is not without risks. The asset class has yet to be tested through a full credit cycle, and limited transparency in pricing and valuation, combined with increasingly complex structures, may obscure emerging vulnerabilities. Default rates remain low, but may be flattered by the widespread use of PIK interest. Rising competition is also weakening covenants and underwriting standards, while concentration risk persists given the dominance of a small number of large alternative asset managers.

If well designed, private credit may enhance financial stability by matching long-dated assets with buy-and-hold investors such as insurers and pension funds, thereby providing an alternative to funding models that rely on runnable bank deposits. However, growing retail participation introduces new liquidity and regulatory challenges, and stress scenarios could still transmit shocks across the broader financial system.