FINANCING INNOVATION AND SCALE UPS IN EUROPE

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Financing growth: EU policy measures to unlock investment in innovation

In his 2024 report on the future of European competitiveness, Mario Draghi delivered a clear diagnosis: Europe suffers from an innovation gap. We have a strong education system, contribute one fifth of scientific publications and account for 17% of patent applications. Yet we fail to turn these ideas into drivers for growth. Our industrial landscape lacks dynamism, and innovative companies have been facing too many barriers. Some have chosen the easier way up – relocate. Between 2008 and 2021, Draghi reminds us, close to a third of European unicorns moved abroad, mainly to the US.

Europe knows how important it is to innovate. Today, EU public contribution to R&I is comparable to that of the US and higher than China's. Where we fall behind is in private investments – EU private R&I intensity is roughly half the size of the US and well behind China. These countries have heavily invested in new technologies and high-tech industries. Failing to tap on opportunities that EU innovative companies create risks perpetuating and deepening our dependencies in increasingly critical areas – such as AI.

Closing the innovation gap is one of the three pillars of the competitiveness compass, the roadmap to restore Europe's dynamism and boost our economic growth that the Commission presented in January 2025. Alongside key actions to support innovation, such as the EU Inc or Startup and scaleup strategy actions, which expand financing for innovative companies through the EIC and Scaleup Europe Fund, the roadmap identifies the Saving and Investments Union as a key horizontal enabler of growth.

Deeper and well-integrated capital markets can play a key role in increasing funding opportunities for businesses. This is another reason why speedy delivery of the Market Integration and Supervision Package is a must.

The SIU strategy acknowledges the need for policy measures that promote investment in equity, and particularly in venture/growth capital, by institutional investors. The Commission has already delivered on most of these policy measures.

First, we have put forward measures to support investments by banks and insurers in the context of so-called "legislative programmes". These programmes, established under EU or national law, combine public and private financing to support businesses in strategic economic sectors. Banks benefit from more favourable prudential treatment on capital requirements, meaning they must hold less capital than for other equity investments. The Commission communication of October 2025 provides guidance on its use to facilitate uptake and thereby banks' contribution to investments. Recent changes to insurance prudential rules that will apply as of next January extend this preferential treatment to insurers.

In line with the SIU mandate, the revised Solvency II framework lowers the prudential costs of investing in long-term equity, applies simplified capital requirements to European long-term investment funds, unleveraged alternative investment funds and qualifying European Venture Capital Funds, and reduces capital charges for many securitisation exposures.

Lastly, to facilitate investments by pension funds, the Commission issued guidance last November to clarify that acting prudently does not require avoiding equity investments such as venture capital. While smaller funds may not be able to afford investing in alternative assets, private assets are a key part of a larger fund's long-term diversified portfolio.

The SIU has more in store, with a reform of European venture and growth capital funds under preparation to enable the sector to make the most of the EU Single Market to grow and scale. And we also recently concluded a targeted consultation on potential barriers and solutions to help facilitate the exit environment in private markets. This work complements previous efforts to support listings on public markets.

All these measures contribute to an enabling framework where capital can find its way to productive investments, help us restore EU competitiveness and set ourselves at the forefront of innovation. This requires continuous efforts from the regulatory side to remove barriers to investment – and the recent banking report is a testament to the Commission's commitment to do so. It also requires helping investors gain trust and find suitable opportunities in venture capital investments. This is the goal of initiatives such as the European Institutional Investors Pact and the next generation of EIB's flagship European Tech Champions Initiative. Critically, it requires investors to seize the investment opportunities that innovative companies can offer and contribute to a sustainable ecosystem where innovation can flourish.

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Financing Europe's intangible economy: The role of IP-backed finance

Early-stage innovative firms face a combination of high demand uncertainty and few tangible assets that systematically shuts them out of conventional debt finance. A technology company at the growth frontier holds its value in patents, trade marks, and accumulated know-how rather than in property or equipment. This reflects a structural incompatibility between the architecture of traditional lending and the way value is increasingly created in modern economies. European policy has long responded with alternative instruments. Horizon Europe, the EIC and InvestEU have improved the landscape for early-stage innovators, yet their reach is limited. Grants are non-scalable. Equity is dilutive. The EU's share of global venture capital fundraising stands at approximately 5%, compared with 52% in the United States and 40% in China. As the Draghi report (2024) concluded, Europe's challenge is not invention but scaling, the primary driver of a productivity gap with the United States that has widened from 17% in 2002 to 30% in 2023.[1]

The financing constraint is inseparable from the rise of the intangible economy. The estimated share of intangibles in the total value of leading firms reached approximately 80% in 2024.[2] A joint EUIPO and EPO studies found that more than 88% of EU private equity and venture capital investment between 2021 and 2023 flowed to IP-right-intensive sectors.[3] Firms filing patents at the seed or early growth stage are 6.4 times more likely to receive subsequent venture capital funding, and those filing trademarks are 4.3 times more likely to attract equity investment.[4] Despite this, most European banks continue to rely on physical collateral. IAS 38 prohibits recognition of internally generated intangible assets on corporate balance sheets, and Basel III treats IP-backed loans on broadly equivalent terms to unsecured lending.[5] On the other hand, the evidence proves that IP-holding firms show approximately a 40% lower probability of default, and a loss-given-default rate around 50% lower.[6] IP-rich firms are not inherently riskier borrowers. They are treated as if they were, by institutions and frameworks that have not kept pace with how economic value is now generated and held.

The recently launched unitary patent system reduces the legal fragmentation that has made cross-border IP lending structurally uncertain. Broader use of IP assets in bank lending would make debt finance accessible at the scale-up stage, bridging the Valley of Death - the phase when a firm has demonstrated viability but cannot access the credit to scale and consequently relocates outside Europe or goes bankrupt. Any enabling environment must begin with valuation. Under the EU Startup and Scaleup Strategy, a framework for IP valuation is under development: standardised methods, automated screening tools, a network of accredited valuers, and capacity-building programmes for the financial community.[7] The SME Fund already subsidises IP registration costs; a successor instrument, the Innova Fund will extend support to the commercialisation stage, covering IP valuation, due diligence and the expert assistance firms need to translate IP portfolios into the language that credit committees recognise.

With a valuation foundation in place, complementary instruments are needed to reduce lender risk and ensure intellectual property is realisable when borrowers default. Secondary market development is a prerequisite: lenders will not accept IP as collateral without confidence that the asset can be sold or licensed if the borrower fails. A credit and insurance transactions repository would provide the pricing data the market currently lacks. IP securitisation converts predictable royalty income streams into tradable securities, allowing banks to recycle capital for new lending. Public guarantee schemes are necessary to bridge the gap between what the evidence justifies and what private lenders will accept without a track record. A new framework, including a possible guarantee instrument financed under the European Competitiveness Fund, is currently under development.[8] A central EU registry of IP pledges would make security interests visible and enforceable at scale, substantially lowering the risk premium lenders attach to IP collateral.

These components are interdependent: a guarantee without a valuation framework creates moral hazard; a valuation framework without a guarantee produces caution; secondary markets without legal harmonisation remain fragmented. The broader EU investment agenda will be more effective operating alongside a functioning IP finance ecosystem.[9] A market capable of recycling public investment through IP-backed debt unlocks private capital that does not currently reach Europe's most innovative firms. Europe holds significant reserves of household savings and generates world-class intellectual property. Creating the conditions for the two to meet would be one of the more consequential acts of financial policy the EU could undertake in this decade.

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2. *WIPO (2025). Global Intangible Finance Tracker (GIFT). Geneva: World Intellectual Property Organization.*
3. *EUIPO / EPO (2026). IP and innovation in European sectors. Joint study, January 2026. Alicante: EUIPO.*
4. *EUIPO / EPO (2023). Patents, trademarks and startup finance. Joint study. Alicante: EUIPO.*
5. *Basel Committee on Banking Supervision (2017). Basel III: Finalising post-crisis reforms. Basel: Bank for International Settlements.*
6. *British Business Bank / UK Intellectual Property Office (2018). Using intellectual property to access growth funding. London.*
7. *European Commission (2025). EU Startup and Scaleup Strategy. Brussels: European Commission.*
8. *European Commission (2025). European Competitiveness Fund proposal. COM(2025). Brussels: European Commission.*
9. *Ibid*

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Fostering innovation and scale-up financing in Europe

What should be the national and European priorities for mobilizing long-term savings into innovation finance?

Innovation financing does not exist in isolation from the overall investment environment of European economies. If the economic policy framework does not incentivize economic agents to invent, innovate and scale up, it is unlikely that investors will look for European assets. A given financing structure on its own will not generate more competitive investment opportunities if the underlying environment remains weak.

At the same time, the fact that Europe has several success stories in innovation could prove that there is nothing fundamentally wrong per se with our system. However, ensuring these successes are evenly spread and aggregated forcefully onto a global level remains an obvious challenge.

The answer is likely not found in just picking low-hanging fruit, if there are any, from the financing infrastructure side. Finding the right levers to incentivize higher risk-taking is not easy. Ironically, diverse income levels have helped some economies overcome obstacles to innovation or digitize rapidly; the outlook for catching up has been a powerful incentive. One could also speculate that it has been easier for some smaller countries to achieve disproportionate success because entrepreneurs have few alternatives but to innovate due to small domestic markets. This has pushed them to expose themselves to global competition early. However, these are not universal answers at the European level.

While strengthening the European capital market infrastructure is highly important, supporting a more competitive internal market must come first. Many crucial elements for supporting innovation and scale-up financing still lie within national-level economic policies that foster entrepreneurial vigor.

In some cases, the bigger obstacle is direct or indirect domestic market support that hampers healthy competition. One could speculate that the ease with which some economies turn to energy support measures is one example of how market signals are removed from economic agents. Such a lack of clear signals is detrimental to scale-ups as it diverts resources away.

> **Good market infrastructure is important, but more competitive internal market must come first.**

If national pension or tax systems do not incentivize higher risk-taking as a necessary element to support future incomes, the integration of technical market infrastructure cannot do much for risk capital pooling. For any positive outcome, one should not underestimate the importance of structural pension reforms or a fundamental refresh of corporate legislation, particularly within the biggest member states, whose success matters significantly for smaller ones as well. This structural inertia has been visible also in European defense sector, where public shielding has often protected traditional national incumbents rather than channeling capital into agile, dual-use tech scale-ups.

While some decisions have been taken in the right direction recently, we can only hope that implementation remains swift. Success cannot be taken for granted. Worse still, as case studies from our own region regarding so called pension reforms have shown, things can actually deteriorate if political cynicism and shortsightedness gain the upper hand.

Furthermore, strengthening the single market in financial services is vital to strengthening the business case for European investment. Lowering the costs of listing, investing, and managing assets cross-border inside Europe is critically important for scale-ups. One cannot expect "Choose Europe"-type initiatives to be particularly successful if investing in an overseas market remains less burdensome and cheaper than undertaking the same endeavor in a neighboring country (or even in your own market).

Whether the Market Integration and Supervision Package (MISP) or similar mechanisms are the definitive way to achieve this cost lowering remains up in the air, as the devil always rests in the details. But for true success, Europe needs progress on two fronts: guaranteeing seamless and cheap linkages for smaller players, while simultaneously exerting pressure on larger players to maintain competitive dynamics.

Finally, direct public interventions via venture capital (VC) funds or development banks can continue to provide market support. However, it is questionable how much these instruments can help innovators scale up when they remain nationally directed and in many cases continue supporting domestic incumbents. Politically, a practice must be established where "others can win" too, ensuring that the success of these instruments is not measured solely by the amount of investment kept within a domestic market.

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Innovation, energy transition and the role of private credit in Europe

As Europe aspires to greater strategic autonomy from defence to data centres, it is embarking on its largest investment cycle in decades against the backdrop of a transition to a lower-carbon economy.

The scale of the challenge is unprecedented – the EU estimates €1.2 trillion of funding is needed annually to support these needs, while the UK foresees €60-70 billion per year of infrastructure spending running into the 2030s[1]. At the same time, the need for reforms that facilitate innovation and deepen capital markets are acknowledged by investors and regulators.

The potential of private credit is increasingly recognized as one of the financing tools to unlock these opportunities. Once primarily associated with leveraged buyouts and middle-market lending, private credit has evolved into an ecosystem capable of financing large investment-grade corporates, infrastructure, renewable energy platforms, digital assets and strategic innovation.

In Europe, Moody's Ratings estimates private credit assets under management could reach €700-800 billion of the €3 trillion globally by 2028, a growth rate that outpaces the US.

Companies are partnering more closely with private credit investors. This is particularly visible in sectors linked to innovation and energy transition with unique risk and cash-flow profiles. One of the most innovative developments has been the rise of structured asset sales and minority asset partnerships. In these transactions, companies transfer assets into a joint venture and sell a minority stake to a private credit investor while maintaining control of operations. The structure provides immediate liquidity without necessarily increasing reported debt.

Examples include infrastructure and semiconductor transactions involving companies such as Intel in the US, Aramco in the Gulf, and RWE, EdF, Orsted and others in Europe. In many cases, the proceeds help finance large investment programmes, strengthen liquidity or protect balance sheets while preserving ownership of strategically important assets.

> Private credit strengthens Europe's innovation ecosystem, but needs careful scrutiny as risks grow.

For innovation-intensive sectors, this model can be particularly attractive. Building semiconductor plants, renewable generation assets or electricity transmission networks often requires vast upfront investment, and it can take years before cash flows fully materialise. Private credit can provide patient capital to bridge this gap.

The benefits for companies are clear. Unlike traditional bank loans or public bonds, private credit investors can provide bespoke solutions, including customised maturities, tailored covenants and financing linked to specific assets rather than the entire corporate balance sheet. As ongoing reforms aim at increasing Europe's competitiveness and private credit is called to play a greater role in supporting growth, it's important to understand where private credit can be best deployed, what it can't do, and where risks are likely to emerge.

Nonetheless, private credit is by no means a replacement for the loss-absorbing equity innovation at the scale companies need. As the market grows, cash leakage, hidden leverage and future refinancing needs create long-term risks for investors that require careful scrutiny.

Although many structured transactions reduce reported leverage, they do not necessarily improve credit quality. Our research[2] shows cash leakage through dividends to private credit investors can reduce funds available to existing creditors and may offset the apparent deleveraging benefits.

There is also the risk of "hidden leverage" whereby some structures contain debt-like characteristics despite being accounted for as equity. Minority investors may receive predetermined returns, strong downside protections or contractual mechanisms that make eventual repayment highly likely. In such cases, economic leverage may be greater than financial statements initially suggest.

Looking ahead, many companies may ultimately seek to repurchase minority stakes in critical assets. However, if market conditions deteriorate, refinancing these obligations could become challenging or expensive. We already see investors increasing their focus on structuring and disciplined credit analysis, while regulators scrutinize transparency and concentration among a small number of large alternative asset managers.

It's clear that private credit will play an important role in facilitating scale and innovation, particularly for green and digital investments across Europe, but its success rests on balancing short-term liquidity benefits against long-term potential risks.

1. *Moody's Sector In-Depth Report: Private credit fundraising accelerates, positioning Europe for faster growth – November 2025*
2. *Moody's Sector In-Depth Report: Rise in structured asset sales will reshape corporate balance sheets – May 2025*

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Europe needs to put its capital to work for scale-ups

Europe's central innovation challenge is not invention. It is scale. The continent produces world-class research, engineering talent and many high-potential companies. What it too often fails to do is turn them into global champions on home soil. This is often treated as structural. In today's geopolitical context, such resignation is a luxury Europe cannot afford: strategic capacity increasingly depends on whether ideas can scale at home.

The numbers frame the challenge. Venture-capital funds located in the United States total about €930 billion, against roughly €150 billion in the EU. Early-stage finance is generally available; the gap opens when companies need large follow-on rounds. The European Commission's Joint Research Centre sample covering 2008 to 2021 found that 40 of 147 EU unicorns relocated their headquarters abroad, 32 to the United States. When a company needs a nine-figure round, there are more doors to knock on in Palo Alto than in Paris.

This is not a shortage-of-money story. EU households held about €37 trillion in financial assets in 2023, yet only 17% was invested in securities, versus 43% in the United States. Europe's problem is conversion: too little of that savings pool reaches productive risk and companies capable of scaling. The continent must connect savers, institutional investors, and entrepreneurs more effectively. Three priorities matter most in closing this gap.

First, unlock capital and build funds of scale. The ongoing Institutions for Occupational Retirement Provision (IORP II) review should preserve a genuinely principles-based prudent-person rule: diversified venture and growth allocations should not be deemed imprudent solely because they are unlisted or illiquid, but judged at portfolio level against liabilities, liquidity, governance, expertise and members' interests. Pooling or consolidating smaller pension vehicles can strengthen the specialist capabilities needed to invest in long-horizon assets. National schemes to mobilise institutional investment, such as France's Tibi and Germany's WIN, should be linked across borders so successful managers can raise larger pan-European funds. For retail savers, the European Long-Term Investment Fund framework, or ELTIF 2.0, offers a regulated EU route into diversified long-term assets, including private companies. The next step is wider, lower-cost distribution, with transparent fees, robust suitability tests and liquidity terms matched to the underlying assets.

> Europe's central innovation challenge is not invention. It is scale.

Second, build a credible exit continuum. Exits are not the end of the financing cycle; they are what replenish it. They return capital to investors, create liquidity for founders and employees, validate valuations and release experienced people to back the next generation. Europe therefore needs three functioning channels: strategic acquisitions by European buyers, transparent secondary markets for private shares, and most importantly public markets with enough long-term investor demand, research, and post-IPO liquidity to support growth companies. Relative to GDP, US capital-market liquidity is about four times Europe's. And while Europe has created competition among trading venues, it has fragmented liquidity. Oliver Wyman research finds the share of trading on lit primary venues has fallen from 38% in 2020 to around 30% in 2025, so barely a third of European equity trading now contributes fully to price formation. Milan-based Bending Spoons' July 2026 Nasdaq IPO makes the point. Europe is not a credible first choice for listing.

Third, make public money and public demand work harder. The state should be catalytic: crowd private capital in, then step back. ETCI 2.0, the second phase of the European Tech Champions Initiative, backed by all 27 EU Member States and institutional investors, aims to mobilise up to €80 billion for European scale-ups. The €5 billion Scaleup Europe Fund can add direct late-stage capacity once it reaches first close, provided its governance remains commercial and it attracts private co-investment. But procurement matters at least as much as financing. Europe has demand pools in energy, health, defence, mobility and industrial automation, yet procurement remains too fragmented, slow and risk-averse to give young companies reference customers. When authorities ask entrepreneurs to build here, they must also make it easier to sell here. That is where Draghi's proposal for the 28th regime comes in: a single market for customers matters as much as one for capital.

There is reason for confidence. Europe has solved coordination problems before, from medicines regulation to product standards, by choosing common rules over patchwork. The talent and savings are here, and the EU Startup and Scaleup Strategy shows political momentum. The work ahead is practical: enlarge the investor base, connect markets, create exits and use public purchasing power intelligently. The question is no longer whether Europe can finance its scale-ups at home. It is whether it will decide to.

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IPOs in Europe: The missing link to boosting European technological expertise

Europe excels in research, engineering, and start-up creation. Yet, it struggles to transform these successes into global technological leaders. This paradox reveals a structural weakness: a market failure in the European financing chain, particularly during the scale up phase.

The *Groupe Caisse des Dépôts* is addressing this failure through the CDC Tech Premium fund, which specializes in IPOs for European technology companies with a primary focus on Euronext of which it is a strategic shareholder. Our conviction is simple: without specialized investors and dynamic stock markets, Europe will be unable to retain its most promising companies or ensure the sustainable financing of its innovation.

Strategic technologies—such as artificial intelligence, cybersecurity, semiconductors, quantum computing, defense, cloud computing, and healthcare—require significant investment in research, industrial capacity, and international expansion. While venture capital plays a decisive role in the early stages of development, the needs of companies reaching critical mass often exceed the capacity of private markets.

An IPO provides these companies with access to broader, more diversified capital. It enables them to sustain growth, pursue acquisitions, and attract top talent, while avoiding premature acquisition by foreign groups. The trajectories of industry giants like ASML, SAP, Dassault Systèmes, and STMicroelectronics illustrate the vital role public markets play in the emergence of European leaders.

IPOs are also essential for "recycling" capital, a function critical to the ecosystem. By providing liquidity to historical investors, an IPO allows venture capital funds to return capital to their limited partners, which can then be reinvested into new projects. This fuels a virtuous cycle where long-term savings, released at the time of an IPO, finance the next wave of innovation. Since 2020, IPOs of venture-backed technology companies have generated over $250 billion in liquidity in the United States, compared to approximately €40 billion in Europe. This gap illustrates Europe's difficulty in converting its technological excellence into economic value.

> Technological sovereignty depends in part on the dynamic of the IPO market.

The stakes are also strategic. Without sufficiently deep European stock market outlets, the most promising companies risk prioritizing a US listing or a foreign acquisition. Currently, 20% of European unicorns have their management or headquarters in the United States, leading to a loss of decision-making centers, skilled jobs, intellectual property, and associated industrial capabilities.

Europe must be capable of financing the transition from innovation to industrial power. Developing a robust European IPO pipeline is an essential condition for converting technological genius into growth, jobs, and sovereignty.

How to Increase the Fluidity of the European Tech IPO Market?

To revitalize the European tech IPO market, Europe must first better concentrate its resources. Between 2015 and 2025, European venture capital funded nearly as many companies as in the US (around 30 000) but with four times less capital (€400 billion versus €1600 billion). This dispersion reduces the funding available for each company and too often prevents the most promising ones from reaching the size and maturity necessary for an IPO.

Much like the success of Airbus, Europe could lead a proactive industrial policy by selecting—on a supranational level—a few champions in strategic tech sectors. Concentrating more resources on fewer, high-potential scale-ups would increase their chances of becoming global leaders. European public authorities could act as anchor investors to stabilize shareholding, preserve independence, and support investments before transitioning to the financial market.

There is a significant pipeline of future Euronext listing candidates in strategic sectors, representing tens of billions of euros in potential market capitalization. Companies such as Mistral, Doctolib, Alan, Pasqal, and Qonto should eventually benefit from the advantages of the market and create a multiplier effect across the entire French innovation ecosystem. The European Deeptech ecosystem boasts over 150 companies generating more than €100 million in revenue or holding a valuation exceeding €1 billion.

This strategy also requires developing private funds specialized by technology—AI, semiconductors, quantum, defense, or cybersecurity—covering the entire financing chain. These funds would allow for the pooling of risks associated with breakthrough technologies. "Crossover" pre-IPO funds would then accompany companies as they prepare for the rigors of financial markets, while reinforcing the credibility of the European listing option. Building a Specialized Finance Chain is the key to sustainable, technological sovereignty.

Finally, specialized listed technology equity funds are indispensable for increasing expertise, market depth, and liquidity. CDC Tech Premium illustrates this catalytic role. By acting as a cornerstone investor in the IPOs of Planisware and Exosens, the fund helped secure their execution and strengthened the confidence of other investors. Dialogue with private tech companies further confirms their need for guidance from investors who possess deep expertise in financial markets.

Europe must therefore combine strategic selection, targeted public intervention, and continuity between venture capital, crossover funding, and public markets. In doing so, IPOs will become a genuine tool of economic policy, serving innovation, growth, competitiveness, and sovereignty.