Identifying factors that support and hinder the scaling up of promising new ventures

Debora Revoltella
Director Economics Department
European Investment Bank
• What is the problem in Europe?

• Falling behind in terms of state of the art of technology and innovation

• Barriers due to uncertainty, skills, business and labor market and in some cases, access to finance

• Policy response should tackle finance, but also a whole range of measures to create a favorable environment and reallocate resources, when needed
Overall environment

- EIB Group new survey on Investment and Investment Finance: 12,500 EU firms interviewed each year

- Positive phase of the cycle: business investment recovering in Europe, though with differentiation among countries and asset classes

- Firms are mostly concerned by the “quality” of their capital

- Replacement and new products and services are the main reasons to invest

- Less than 50% of European firms engaged in innovation

- Uncertainty, availability of skills and to a lesser extent (geographical and sector specific) labor and business regulations are a constraint to firms investment

- Access to finance a concerns in some countries and for some firms
Intangibles positively contributing to investment recovery, but with a gap vs peers

R&D as % of GDP, EU and major economies

Investment in intangibles (INTAN definition) as % of GDP, 2010-2013

Source: EIB, based on Eurostat and INTAN-Invest database
Adoption of latest technologies, mostly to catch the frontier

Did not invest in new products  New to the company
New to the country  New to the global market

**Base:** All firms that invested in the last financial year (excluding don’t know/refused responses)

Q. Were the new products, process or services (a) new to the company; (b) new to the country; (c) new to the global market?
Impediments to investment

- Availability of skills: 4% more among young firms complain as major obstacle (<5y)
  - In 22 out of 28 EU MS

- Labor market regulation: 2% more among young firms complain as major obstacle
  - Labor market regulation also strongly negatively related to investment in intangibles (particularly in service sector and IT)

- Business regulation and labor market regulation inducing a size-step effect in firms’ growth

- Availability of finance: not the major obstacle, but 6% more among young firms complain
Finance Constrained Firms by firm age and satisfaction for innovators

Q. Approximately what proportion of your external finance does each of the following represent?

Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged).
Policy priorities

• Young and innovative firms generate jobs: facilitate reallocation of resources if needed

• Skills and labor market constraints an issue:
  • Equip the young generation with best possible cognitive abilities
  • Create a coherent strategy for teaching advanced digital skills
  • Labor market regulation hindering intangible investment and young firms growth

• Business regulation sector and country specific, but generally prevents reallocation of resources

• Access to finance:
  • Whole spectrum of financing from pre-seed to development
  • Equity financing and exit strategies
  • Collateral schemes and register for intangibles

• Equality of opportunity crucial also in the context of technological change, competitiveness and inclusiveness of growth:
  • WEF-EIB-Bruegel 2017 report, presented on March 21st
EIB Group Plays a role

Among other activities:

- EIF, as a VC fund of fund performed EUR 10.94bn investments in 1996-2014
- These benefited a "portfolio" of about 3,400 seed and start-up companies
- Investment backed by EIF represented 41% of total VC investments in Europe in 2014 (29% in 2007). The share directly attributable to EIF amounts to 10% (5% in 2007)
- EIF crowding-in effect: on average, a 1% increase in EIF-provided VC capital in a region led to a 1.41% increase in other investors’ activity in the same region, one year later

Source: Helmut Kremer Eis et al (2016): The European venture capital landscape: an EIF perspective
ANNEX
EIB Investment Survey (EIBIS)

- Some 12,500 firms in the 28 EU member states
- Survey of non-financial corporate sector (firms with 5+ employees)
  - Covering manufacturing, services, construction and infrastructure sector
- Qualitative and quantitative information on:
  - firm characteristics and performance
  - past investment activities and future plans
  - sources of finance
  - and challenges that businesses face
- Representative of the economy (firms weighted by value-added) at the level of:
  - EU28
  - each EU member state (separately)
  - 4 industry groups (within each member state – for most countries)
  - and 4 size classes (within each member state – for most countries)
- Annual survey for an initial period of 3 years (panel plus cross-section)