

Making the best use of public funding
Invest Europe position paper on the future MFF

Introduction

Invest Europe is the association representing European private equity, venture capital and infrastructure managers as well as institutional investors committing capital to the asset class.

Since its onset a few decades ago, private equity has been more than an alternative to traditional forms of financing, such as bank debt or public markets/exchanges. By pooling capital from investors in long-term and diversified funds, managers have built a model that allows investments in businesses of all sizes. The venture capital and growth segments of the asset class, which emerged more than 40 years ago, remain crucial for the funding of start-ups and scale-ups. Infrastructure and buy-out deals allow large businesses to find capital at crucial junctures of their life. In total, private equity managers invested € 680 billion in EU-based companies over the past ten years (€78 billion for venture capital only).

Private equity managers are not merely investors. They are very often active members of the board of the companies their fund is invested in. This active ownership model allows investee companies to grow more rapidly. Today, private equity backed companies continue to [create more jobs than their public counterparts](#), and their [on average higher performance](#) allow many institutional investors to meet their fiduciary duties.

As the European Commission, the European Parliament and national governments are about to negotiate the terms of the next MFF, we would like to **share the perspective of private market players on the role of public funding for private equity ecosystems**. In this paper we also examine what can be done to ensure that EU citizens' money is used in the most efficient way to promote the Union's goals.

Competitiveness as an overarching goal – and the role of private finance

We fully support the European Commission's decision to place **competitiveness as an overarching objective** of the next MFF. As highlighted in the Draghi report, EU's difficulties at keeping pace with other major jurisdictions should be at the core of the EU political strategy – and of its budget. Our continent's ability to face its many challenges will depend on our capacity to invest capital in strategic sectors.

Innovation is the bedrock of competitiveness, and it is welcomed that the next MFF will extend its support to EU R&D. The MFF should rightly focus on promoting EU talent, cross-border research and the development of innovation clusters. Entrepreneurs will

need the appropriate support to set up companies in core strategic sectors, such as climate change and the tech transaction.

Yet, as soon as great ideas and entrepreneurs step out of their mythical garages, **innovation is nothing without appropriate funding channels**. It is therefore welcomed that budget lines will also be allocated to **support equity funds that help innovative companies grow**. After business angels, but before public markets, **venture capital and growth funds** indeed provide a **unique source of financing for start-ups and scale-ups**.

The MFF and private equity

The Multi-Financial Framework (MFF) has long been relevant to the development of the private equity ecosystem. EU funding has allowed institutions such as the European Investment Fund (EIF) to promote the development of venture capital and growth funds across the Union. Public capital has led to the creation of many additional private funds and contributed in making EU financial markets more mature. More recently, the EIF and the more recently set up European Innovation Council (EIC) have expanded their role towards direct, VC-like investments in smaller business as well as increasing their focus on financing for scale-ups.

As recently noted by the ECB in its “[*Should we mind the gap?*](#)” paper, the European venture capital industry clearly suffers from the comparison with its US counterpart. There are many reasons for this. Existing single market barriers make it harder for businesses to grow – and for funds to operate cross-border. The lack of equity culture among European investors, institutional or retail, limits private financing opportunities. Large established businesses are also reluctant to act as corporate investors or to buy successful companies – decreasing the number of exit opportunities on EU soil. All of these situations are examples of negative externalities that prevent the development of a truly integrated EU VC ecosystem.

We support the focus of the next MFF on competitiveness and the integration of multiple programmes into one single Competitiveness Fund. Simplifying existing mechanisms and focusing on simple competitiveness goals at EU level will help leverage better results to the benefit of EU funding’s private recipients.

A budget that attracts private capital...

At times where public funding is by nature a scarce commodity, we advocate for the **EU budget to focus on mobilisation of additional private investments**. The onus should be on areas where public intervention can **incentivise private investors to commit capital to long-term EU projects** that have a high impact value for the EU economy.

The **role of the European Investment Fund should be strengthened** and its **procedures simplified** to better mirror the realities of private markets. The EIF long-term activity as an anchor investor in the VC fund community has permitted many managers

to raise additional capital from other investors, leveraging EU public capital. Yet, the **relatively complex conditions attached to eligibility to EIF commitments** have discouraged several VC firms over the years.

...and benefits from the Savings & Investments Union developments

EU public funding schemes should not be crafted independently from **EU regulatory action aimed at removing barriers to private investments** – such as those pushed forward in the Savings & Investments Union programme.

For the public support to effectively “leverage” private capital, EU lawmakers should first make it easier for institutional and sophisticated investors to commit money to these funds in the first place. Among the initiatives that could be put forward in the coming months and years are **changes to prudential laws** - that currently prevent banks and insurers to invest in long-term equity -, a redefinition of **EU investor categorisation**, tackling **barriers to occupational pension funds’ investments** and **including private assets within DC pension products**. The preferential prudential treatment for banks’ co-investing alongside the EIF, recently suggested by the European Commission, is a positive step – but it will not be enough to incentivise private players to return to equity markets.

Finally, while acknowledging current realities of the EU architecture, we call for EU lawmakers to consider how **tax incentives** can modify investors’ behaviour for the better. Projects such as the EU Savings & Investments Accounts, whose role is to mobilise the savings of EU citizens for long-term projects, can only be build with strong tax incentives – which so far remain exclusively national.

On a more ambitious note, we argue that the EU budget could at some point be used to influence Member States to support their local innovation ecosystems. Targeted rebates to existing contributions could for example be envisaged for EU countries that provide relevant tax incentives for their citizens or that accept to make significantly more investments in innovation. This could in itself leverage the power of the EU budget beyond its own limited means.

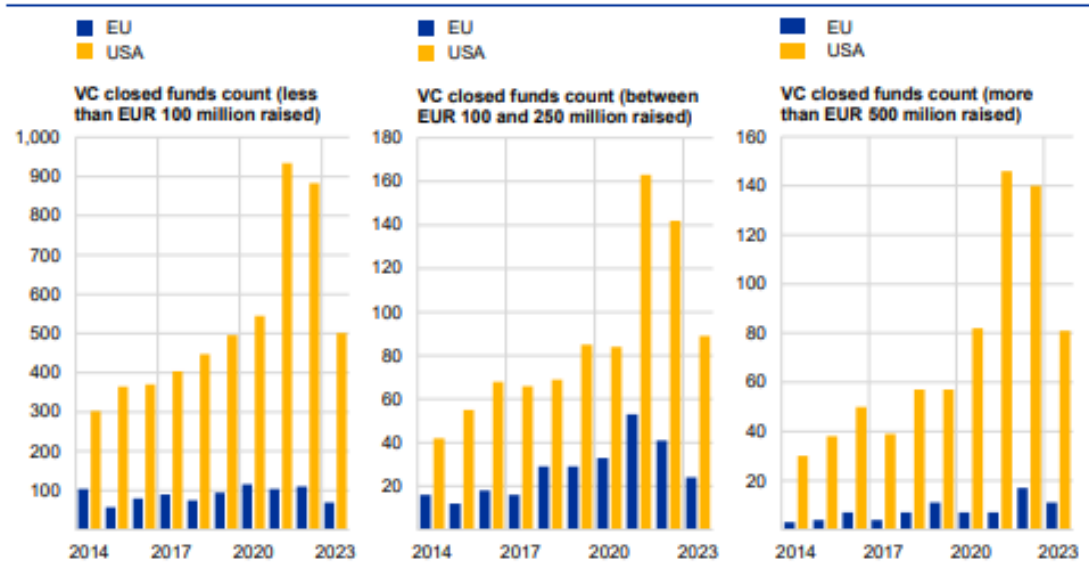
The MFF should focus on prioritising funding lines which have a real “leverage factor”. Public programmes should be closely associated with legislative action that foster private investments, including (national) tax initiatives. EU and national lawmakers should also consider more innovative options to foster innovation.

Financing scale-ups...while maintaining support to start-ups

The VC and growth market’s lack of scale is one of the main reasons successful EU companies end up becoming US ones. As long as the “[scale-up gap](#)” identified by the EIB remains unfilled, our continent will nurture companies that will make the success of other regions.

Yet, having identified the scale-up gap as one the EU’s main concern in the innovative space should not divert EU lawmakers from the lower end of the venture capital market. After all, it is the financing of **both start-ups and scale-ups** that remain subdued in Europe, as identified in the graph below.

VC closed funds count by amount of capital raised



Source: ECB, “*Should we mind the gap?*”

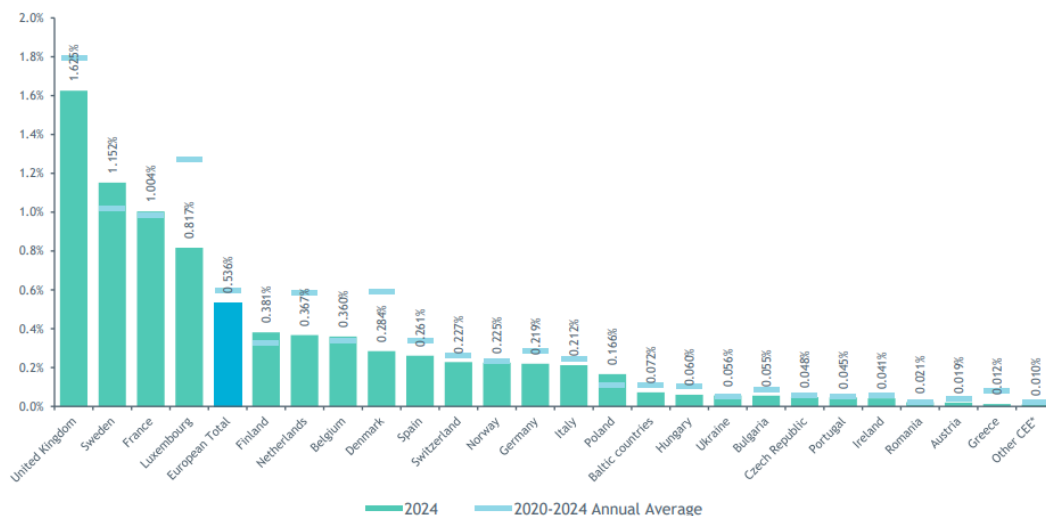
Budget negotiators should therefore be careful not to sacrifice the support to the former for the support to the latter. The financing ecosystem for seed and start-up businesses still remains largely underdeveloped in many EU countries while scale-ups, which particularly suffer from the Single Market limitations and the lack of large-scale equity funding, continue to need help to face competition from their global counterparts.

Supporting companies in the seed/start-up phase

As seen in the graph below, most national venture markets in the EU remain underdeveloped – and a reduction of the EU financing could strike a heavy blow to the growth of national ecosystems.

All Private Equity - Investments as % of GDP

2024 - Industry statistics - Location of the private equity firm



Source: Invest Europe, 2025

In most parts of the Union, the private sector has been unable to meet the innovation ecosystem financing needs, in particular due to existing EU and national restrictions to equity finance which we detailed above. Some of these restrictions have been accentuated recently, for example due to Basel implementation in the EU. Commercial banks have largely retreated from their roles as equity investors, ironically currently leaving national promotional banks alone to invest in the VC and growth funds set up by managers.

Until EU equity financing ecosystems are built up to their full capacity, allocating EIF and national promotional banks the necessary budget lines to be first investors in funds will be needed for a sufficiently high number of seed venture capital funds to be set up in the EU.

As an institution, the EIF will have to continue playing a crucial role in convincing private investors to commit additional capital to these funds – ensuring that public money effectively leverages private capital. That role should be strengthened in the future, not lessened.

Supporting companies in the scale-up phase

The lack of scale-up financing in the EU - and its impact on EU competitiveness - has been well documented. The size of European equity funds remains too small on average, forcing EU scale-ups to choose global players as their financiers.

We share the goals set in the initial MFF drafts to foster the development of government support for what the industry is calling “late-stage financing”. Recent experiences, such

as the European Tech Champions Initiative (ETCI), have demonstrated that said financing is evidently most efficient when done at EU level. All scale-ups need to adopt a European strategy to face global competition – and funding at national level would only exacerbate national differences.

Leveraging private finance for scale-ups however require taking **the specific needs of larger market players in serious consideration**, as these are less used to work alongside public partners. For public money invested at this stage to have the greatest leverage effect possible, operating conditions will have to account for market realities. Recent endeavours, such as the defunct VentureEU, have shown that programmes that were too restrictive ended up not having the expected effect, or no effect at all. This is because large-scale managers are not used to complex entry criteria, that are often related to public fund access. **Streamlining these criteria would therefore be essential for the success of large-scale programmes.**

As mentioned above, to develop the focus on scale-up financing, it will also be essential to **recognise that scale-ups can reach relatively large sizes before being profitable**. While the focus of EU programmes has long been on SME and mid-caps exclusively, ways should be found to ensure that **scale-ups** – or the funds that support them - **remain eligible for financing long after they crossed typical size thresholds** (such as the SME or small mid cap definitions). One option would be to ensure that companies that were once start-ups can retain that status for a longer period, especially in industrial sectors – such as healthcare or energy - where developments can often take much longer than a decade.

In its first proposals, the European Commission has largely insisted on the need to finance scale-ups while noting that public funding was primarily devoted to SMEs and small mid-caps. This is something of a contradiction, as scale-ups are generally larger not meeting the definition of a small mid-cap. We argue that all types of innovative businesses should be at the centre of the EU competitiveness strategy irrespective of their sizes.

Conclusion

The Multi-Financial Framework's budget lines can have a significant positive impact on the ability of EU start-ups and scale-ups to grow across the EU. This is especially true if public capital lowers negative externalities and leverages private financing, as is the case for the budget lines that allow the EIF to perform its role as equity investors in VC and growth funds. The efficacy of the leverage effect however depends on the conditions under which private investors can co-invest alongside the public.

The new strategic focus on scale-ups will help create more EU champions by supporting larger, growth funds able to mirror their US rival. Yet, this strategic shift should not come

at the detriment of seed and start-up capital, given the remaining fragility of many national EU markets.