Start-ups and scale-ups need capital. The EU is working on making access to finance easier for businesses though loan guarantees, business loans, microfinance and venture capital. To boost investment opportunities from venture capital and make funding more accessible to small and innovative enterprises, the Commission is launching a pan-European Venture Capital Fund-of-Funds. The VC Fund-of-Funds will complement other flagship Commission initiatives such as InvestEU and the Capital Markets Union, as well as various EU funding programmes.

**PAN-EUROPEAN VENTURE CAPITAL FUND OF FUNDS**

Venture capital can be crucial to new and expanding businesses, particularly those with high growth potential. In exchange for their investment, investors usually acquire an ownership stake in the company they invest in. In the EU, the average size of venture capital (VC) funds is half the size than in the US. Most VC investment in the EU is concentrated in just eight countries and depends on funding from public sources. The pan-European Venture Capital Fund-of-Funds should tackle these bottlenecks and change the market for VC in Europe.

**The objectives are:**
- Increase investment opportunities for institutional and private investors in the EU VC market
- Improve access to finance for companies seeking VC funding
- Help the VC funds reach a greater size with support from the Fund-of-Fund(s)

**How will this work?**
- The EU will provide cornerstone investments of up to a maximum budget of **€400 million** in one or more independently managed VC Fund-of-Funds. This contribution will combine resources from EU funding programmes Horizon 2020, EFSI and COSME
- The fund manager(s) must raise at least **three times** as much from private sources, triggering a minimum of **€1.6bn** in venture capital funding. This will represent a major boost for the sector
- The Fund-of-Funds will be managed by one or more professional and experienced fund managers. A call for expression of interest opened on 8 November 2016 with a deadline of **31 January 2017**. Manager(s) should be appointed in **early 2017** and funds should be raised over **12-18 months**.
**Why is this different?**

The EU involvement will make investment in the Fund-of-Funds and its underlying funds more attractive for independent private and institutional investors. In contrast to other funding programmes, this fund will be managed by one or more professional and experienced fund managers under the supervision of the Commission and the EIB, ensuring a real market approach. This structure will enable the VC funds attract more investments and significantly increase the availability of VC funding for start-ups and SMEs in the EU.

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**EUROPEAN FUND FOR STRATEGIC INVESTMENTS (EFSI)**

As part of the Investment Plan for Europe, the European Fund for Strategic Investments (EFSI) supports risk finance for SME and mid-cap companies across Europe. The EFSI helps them to overcome capital shortages by providing more direct equity and additional guarantees for SME loans through financial intermediaries such as banks or venture capital funds.

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**THE CAPITAL MARKETS UNION**

The Capital Markets Union (CMU) combines a number of different workstreams that will contribute to deeper and more liquid capital markets. This will in turn support financial stability and the real economy by expanding and diversifying sources of funding for companies in general and SMEs in particular. In this context, venture capital is key to supporting growth and offering entrepreneurs a way to raise funding in Europe as well as from overseas. As part of the Capital Markets Union work, the Commission proposed in July 2016 changes to the EU venture capital framework to facilitate cross-border raising of venture capital.
EXAMPLES OF EXISTING EU FUNDING

**Horizon 2020**

Horizon 2020 is the biggest EU Research and Innovation programme ever with €77 billion of funding available over 7 years (2014 to 2020). Horizon 2020 funds high-potential innovation through a dedicated SME instrument. It helps high-potential SMEs to develop ground-breaking innovative ideas for products, services or processes that are ready to face global market competition. Under Horizon 2020 the Commission also supports “InnovFin – EU Finance for Innovators”.

Qwant is originally a French start-up that received €25 million through InnovFin to develop a market-ready European search engine that can be used instead of US ones. In 2015 they released Qwant Junior, a version of the search engine for children aged 6-13 that filters out results adult or violent content. The volume of users has doubled in the past six months and now stands at 20 million each month.

**European Fund for Strategic Investments (EFSI)**

By providing guarantees to existing EU programmes and allowing the intermediary to take on more risk, the EFSI enables the European Investment Fund (EIF) to boost its existing support for SMEs, which means in turn that the EU budget resources can go further. So far, the EIF has approved 234 SME financing agreements under the EFSI with up to €7.7 billion in financing that should benefit 377,000 SMEs and Midcaps. Given the success of the SME part of EFSI, a further €500 million have now been allocated to it from other parts of the programme.

Wow Technologies, an EFSI beneficiary, is an engineering company active in several sectors such as aeronautic, foods, bio-tech and automotive. It is based in Nannine near Namur, Belgium and employs around 60 people. Wow Technologies received financial backing from Belgian intermediary Sowalfin which is backed by the EFSI. This allows the intermediary to finance companies it may deem higher-risk as it has the backing of the EU budget guarantee. As the projects that Wow Technologies take on are innovative and require capital from the very start, financial backing from Sowalfin was crucial.

**CHANGES TO THE HORIZON 2020 PROGRAMME**

The Commission also intends to make changes to the Horizon 2020 programme in the period 2018-2020, including using €1.6 billion to better support breakthrough innovation projects by start-ups that cut across sectors or technologies. This will make it easier for start-ups to access financial and technical support within the Horizon 2020 programme and help innovative projects to achieve market scale. These changes will also pave the way towards creating a European Innovation Council in later EU research programmes, to continue providing support to the most innovative, high-growth potential projects.
**COSME programme**

COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises. Thanks to an initial budget of over €1.3 billion, it will mobilise up to €25 billion in financing from financial intermediaries via leverage mechanisms. Running until 2020, the programme has already helped almost 100,000 SMEs around Europe. COSME's predecessor, the CIP Programme, helped more than 380,000 SMEs get access to loans and equity finance.

*KopfNuss* is a German company that developed a natural refreshing drink without added sugars. To get started, they obtained a €30,000 loan from a bank in Hamburg, guaranteed by a financial intermediary through the COSME programme. It helped the company to launch the product onto the market and produce the first 40,000 bottles. After one year, production has increased fivefold. They have formed partnerships with various events and are recording continuously increasing sales.

**Cohesion Policy**

During 2007-2013, EU Cohesion Policy funding supported 121,400 start-ups, as well as some 400,000 SMEs. In 2014-2020, almost €64 billion of European Structural and Investment Funds (ESIF) are dedicated to enhancing the competitiveness of SMEs, including around €20 billion via financial instruments. The aim is to support more than 140,000 start-ups.

*SAS JEREMIE Languedoc-Roussillon:* Approximately €10.5 million of ESIF contributions were invested in 29 SMEs from the Languedoc-Roussillon region in June 2015. In addition, many private co-investors, especially from outside the region, provided additional resources amounting to over €31 million. Thanks to these investments, supported young businesses also received advice and coaching, especially on management. Two companies supported by the financial instrument have already been launched successfully on the stock exchange.