

Venture capital in Europe and the financing of innovative companies

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Abstract

European venture capital

Venture capital is considered to be the most appropriate form of financing for innovative firms in high–tech sectors. Venture capital has greatly developed over the last three decades in the United States, but much less so in Europe, where policy–makers are striving to help channel more funds into this form of financial intermediation. In this paper we provide the first assessment of venture capital in Europe. We document its development in the 1990s and compare it with that of American venture capital. We find the wedge between them to be large and growing. We then look at the involvement of venture capital with some of Europe's most innovative and successful companies, those listed on Europe's 'new' stock markets. Venture capital is effective in helping these firms overcome credit constraints, and thus to be born in the first place. Using a unique, hand collected data set from the listing prospectuses and annual reports of these companies, we find European venture capital to have a limited effect on their ability to raise equity capital, grow, and create jobs. We conclude that public support of the European venture capital industry should look at both its growth and at its maturation.

– Laura Bottazzi and Marco Da Rin

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