Statistics
in focus

SCIENCE AND TECHNOLOGY

36/2007

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Manuscript completed on: 14.03.2007
Data extracted on: 20.11.2006
ISSN 1977-0316
Catalogue number: KS-SF-07-036-EN-N

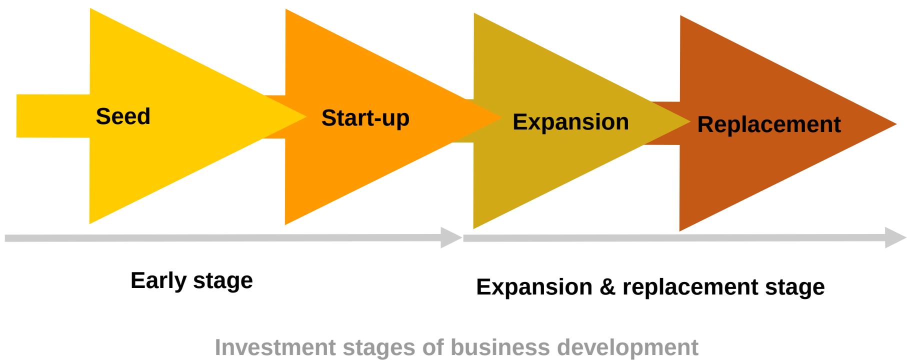
Venture capital investments

Venture capital investments do not play a lead role when starting up a business in Europe

Main findings

- Venture capital investments boomed in 2000 in the United States and in Europe, but in the years that followed the venture capital markets collapsed. In 2004 and 2005, the situation became more stable on these markets and in some countries this type of financing seems to be experiencing a revival.
- In Europe, the United Kingdom is the absolute leader in using venture capital investments as source of financing, while Denmark and Sweden lead in venture capital investments as a percentage of GDP.
- Survey results show that access to finance is perceived as an impediment to creating or developing a business activity, but for entrepreneurs it is the administrative burden that hampers them most.
- European entrepreneurs still prefer more traditional forms of financing, such as using their own funds or savings as against innovative forms of financing such as venture capital.
- Venture capital associations exist in many countries all over the world; the associations in China, Hungary and the United States are just three examples.

Figure 1: Outline of the different investment stages



Source: Eurostat

Venture capital investments: early stage

Table 2: Venture capital investments (VCI) in the early stage for selected years in million euro and AAGR in %, from EU15, EA12 and by country

		1990	1995	2000	2001	2002	2003	2004	2005	AAGR 2000-2005
EU15	European Union	:	314.8 s	6 405.5 s	3 977.4 s	2 606.8 s	1 976.3 s	2 283.8 s	2 282.1 s	-18.7
EA12	Euro area	:	277.4 s	4 531.5 s	2 668.3 s	1 619.6 s	1 090.0 s	1 066.3 s	1 188.1 s	-23.5
BE	Belgium	9.0	6.4	264.8	99.0	108.9	37.8	47.2	61.8	-25.3
CZ	Czech Republic	:	:	15.6	6.7	0.5	0.7	0.2	0.0	-67.6
DK	Denmark	5.7	3.4	34.0	151.8	137.6	93.3	165.7	106.9	25.7
DE	Germany	33.5	89.1	1 652.6	1 154.3	560.8	292.4	353.5	304.9	-28.7
EL	Greece	:	3.2	9.2	31.5	13.0	11.4	3.0	0.0	-24.5
ES	Spain	12.5	17.6	200.0	110.9	106.1	56.2	69.1	117.7	-10.1
FR	France	94.9	26.6	1 154.9	561.6	401.0	395.0	410.3	472.1	-16.4
IE	Ireland	1.0	0.9	111.6	37.6	27.4	32.9	27.8	36.1	-20.2
IT	Italy	12.3	44.9	539.7	291.4	64.6	58.8	22.8	29.8	-44.0
HU	Hungary	:	:	1.7	15.7	2.4	0.3	0.0	3.6	16.5
NL	Netherlands	20.6	76.3	372.4	184.0	201.3	35.7	38.9	10.1	-51.4
AT	Austria	1.5	0.3	60.2	41.5	27.5	29.7	17.4	28.4	-13.9
PL	Poland	:	:	41.8	25.0	9.8	2.2	0.0	0.5	-58.5
PT	Portugal	9.0	4.2	30.8	16.0	10.3	55.7	36.1	58.5	13.7
SI	Slovenia	:	:	:	:	:	1.0	:	:	:
SK	Slovakia	:	:	0.0	2.7	0.8	0.0	2.1	0.4	55.1
FI	Finland	7.6	7.9	135.4	140.4	98.7	84.5	40.2	68.8	-12.7
SE	Sweden	4.0	6.1	227.7	238.4	249.1	171.3	232.2	148.6	-8.2
UK	United Kingdom	118.9	27.9	1 612.3	918.9	600.5	621.7	819.7	838.4	-12.3
RO	Romania	:	:	1.4	1.6	2.4	0.0	0.0	3.6	20.5
IS	Iceland	:	:	36.6	6.0	2.1	:	:	:	:
NO	Norway	5.9	5.3	104.0	65.4	73.1	55.6	31.1	67.6	-8.3
CH	Switzerland	12.2	0.7	58.2	74.8	131.6	89.2	60.8	76.8	5.7
US	United States	:	2 278.1	31 131.6	10 477.0	4 420.5	3 377.8	3 506.6	3 474.2	-35.5

Czech Republic and Greece: AAGR 2000-2004.

Source: Eurostat

Tripling early-stage investment by venture capital funds

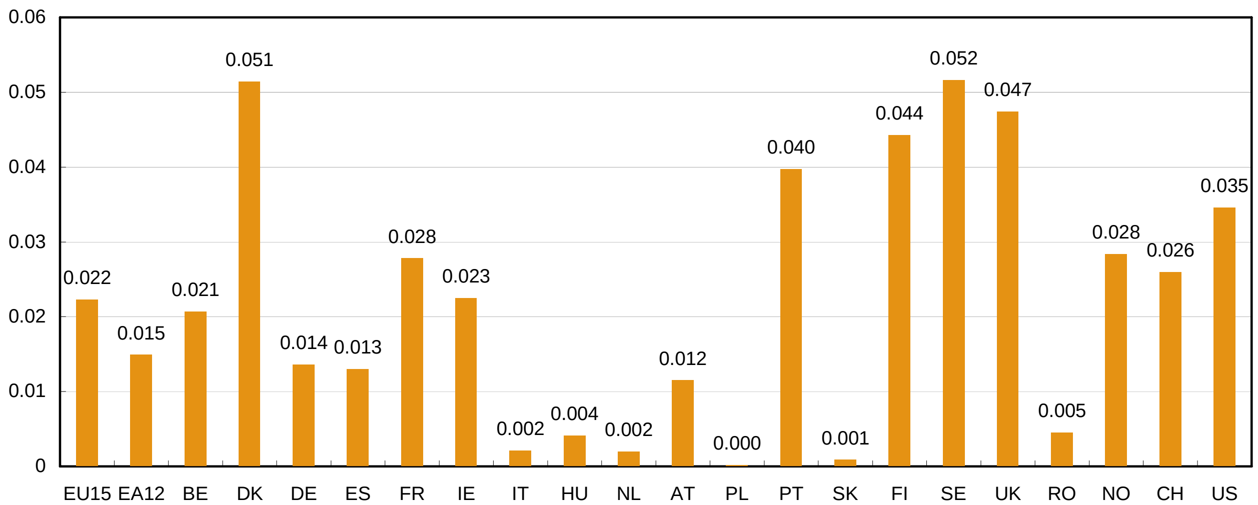
The gap in early-stage financing inhibits SME growth in the EU. United States early-stage venture capital investment stands around 0.04% of GDP. This level has been reached or exceeded by Sweden, Denmark and the United Kingdom in 2004. For the rest of the EU to reach it would mean that the EU would be able to invest about €6bn a year. This would amount to a tripling of current levels. Such levels were briefly achieved in the past, but the challenge is to reach them on a sustainable basis. Some of these investments may hold the key to Europe's future…

Source: based on EU Communication, Brussels, 29.6.2006, COM(2006) 349 final

Venture capital investments are generally used to finance start-ups and fast-growing enterprises. These investments are often risky, but where they succeed they can yield a substantial return. As shown in Figure 1, several stages can be distinguished: Early stage (seed plus start-up), expansion stage and replacement stage - see also the methodological notes.

In most countries, venture capital investments began in the early nineties. Up to 1995 the amounts invested were relatively low. In 2000, there was a boom in venture capital investments as a source of financing and numerous start-ups were founded.

Figure 3: VCI early-stage as a percentage of GDP by country, 2005



Source: Eurostat

But the boom period did not last long and the amount invested fell rapidly in the two following years. In most countries venture capital investments dropped to their lowest levels in 2003, even though the amounts involved were much higher than in 1995.

Since 2004 the situation seems to have become more stable for this source of financing, and small growth rates can be seen; however, in 2005 only very few countries regained their investment levels of 2000. The trends are the same for early-stage financing and for expansion and replacement stage financing, but early-stage investments seem to take more time to recover.

Countries such as Denmark and Portugal are recovering faster than others. While in 2000 there was an incredible boom in venture capital investments in the United States, the subsequent decline was also very steep - much steeper than for the European countries. Recovery also seemed to take much longer in the United States.

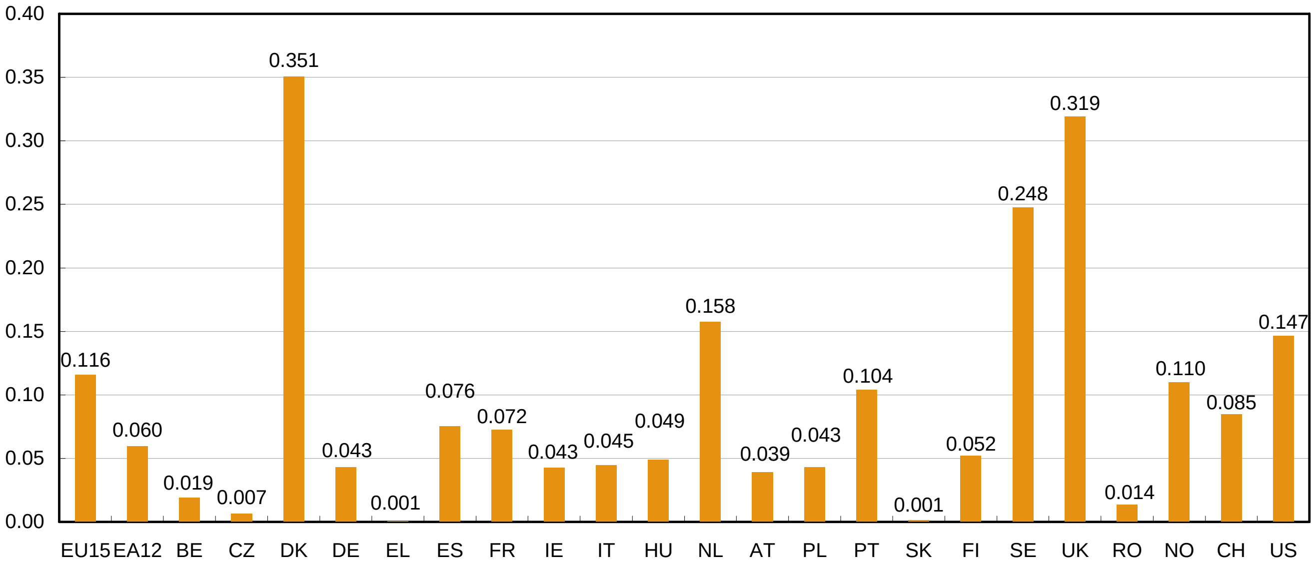
Venture capital investments: expansion and replacement stage

Table 4: Venture capital investments: expansion and replacement stage for selected years in million euro, and AAGR in %, from EU15, EA12 and by country

		1990	1995	2000	2001	2002	2003	2004	2005	AAGR 2000-2005
EU15	European Union	:	2 511.8	13 226.4 s	8 708.1 s	7 406.2 s	8 175.0 s	8 365.2 s	11 849.8 s	-2.2
EA12	Euro area	:	1 703.9	8 136.3 s	5 658.1 s	4 619.8 s	4 378.2 s	4 662.4 s	4 760.4 s	-10.2
BE	Belgium	55.4	99.7	266.4	207.7	122.3	84.9	179.4	56.7	-26.6
CZ	Czech Republic	:	:	105.9	19.8	28.6	1.1	8.8	6.4	-42.9
DK	Denmark	5.3	25.5	157.5	168.7	96.8	106.8	117.6	730.4	35.9
DE	Germany	382.4	442.3	2 274.5	1 628.1	801.1	415.5	725.8	966.9	-15.7
EL	Greece	:	5.0	185.8	70.0	32.4	11.3	2.1	1.2	-63.8
ES	Spain	54.1	121.2	609.9	913.1	623.6	912.0	1 225.9	682.8	2.3
FR	France	478.6	486.2	2 128.8	789.5	866.0	1 413.7	1 278.3	1 228.0	-10.4
IE	Ireland	31.0	17.7	105.8	89.6	77.7	46.5	33.4	68.7	-8.3
IT	Italy	162.9	176.4	1 065.4	879.3	1 010.7	716.7	541.1	633.4	-9.9
HU	Hungary	:	:	29.2	10.4	14.9	21.2	95.7	43.1	8.1
NL	Netherlands	151.1	283.7	1 187.7	857.0	740.8	444.9	378.4	791.8	-7.8
AT	Austria	4.5	0.8	88.5	86.5	99.9	71.1	104.7	96.5	1.7
PL	Poland	:	:	159.8	121.7	88.4	83.1	96.4	103.8	-8.3
PT	Portugal	28.0	49.7	107.1	62.3	51.3	54.5	120.1	153.4	7.5
SI	Slovenia	:	:	:	:	:	1.2	:	:	:
SK	Slovakia	:	:	1.5	5.8	2.1	2.8	2.1	0.5	-18.0
FI	Finland	9.2	21.4	116.4	74.8	193.8	207.0	73.3	81.0	-7.0
SE	Sweden	36.2	27.3	336.3	771.2	424.1	239.2	447.0	713.7	16.2
UK	United Kingdom	788.0	755.1	4 596.3	2 110.2	2 265.4	3 450.8	3 138.1	5 645.4	4.2
RO	Romania	:	:	16.2	21.6	14.4	59.3	0.0	10.8	-7.7
IS	Iceland	:	:	68.3	12.3	10.7	:	:	:	:
NO	Norway	41.6	113.8	187.6	210.9	118.2	190.8	168.3	261.9	6.9
CH	Switzerland	26.3	26.8	138.1	90.6	143.9	59.3	62.1	250.3	12.6
US	United States	:	3 727.8	81 722.7	34 791.2	18 592.0	13 979.5	14 203.0	14 724.7	-29.0

Source: Eurostat

Figure 5: VCI expansion and replacement stage as a percentage of GDP by country, 2005



Source: Eurostat

Table 6: Venture capital investments (early stage + expansion and replacement stage) in million euro, market capitalisation in billion euro, 2005, lack of outside finance indicator in %, 2004 and birth rate in %, 2003, by country

		2005			2004	2003
		VCI early stage	VCI expansion & replacement	Stock market capitalisation (1)	Percentage of enterprises with high innovation activity citing lack of outside finance as a major factor hampering innovation (2)	Birth rate of enterprises (3)
EU15	European Union	2 282.1 s	11 849.8 s	8 642.9 EU25	:	8.26
EA12	Euro area	1 188.1 s	4 760.4 s	:	:	:
BG	Bulgaria	:	:	1.1	20.9	:
BE	Belgium	61.8	56.7	244.6	11.2	7.04
CZ	Czech Republic	0.0	6.4	45.9	11.5	10.13
DK	Denmark	106.9	730.4	:	9.0	9.27
DE	Germany	304.9	966.9	1 035.3	11.4	:
EE	Estonia	:	:	3.0	19.3	15.47
EL	Greece	0.0	1.2	123.0	32.3	:
ES	Spain	117.7	682.8	813.8	26.6	9.78
FR	France	472.1	1 228.0	1 490.9	9.6	:
IE	Ireland	36.1	68.7	96.7	12.5 p	:
IT	Italy	29.8	633.4	676.6	18.8	7.72
CY	Cyprus	:	:	5.6	23.8	:
LV	Latvia	:	:	2.2	58.2	10.20
LT	Lithuania	:	:	6.9	18.8	9.20
LU	Luxembourg	:	:	43.5	5.3	10.61
HU	Hungary	3.6	43.1	27.5	19.6	10.30
NL	Netherlands	10.1	791.8	:	9.7	8.45
AT	Austria	28.4	96.5	107.1	9.3	:
PL	Poland	0.5	103.8	79.0	15.3	6.38 p
PT	Portugal	58.5	153.4	:	26.2	:
SI	Slovenia	:	:	6.7	15.2	6.59
SK	Slovakia	0.4	0.5	4.0	24.1	8.83
FI	Finland	68.8	81.0	:	16.5	7.71
RO	Romania	3.6	10.8	15.2	10.1	18.74
SE	Sweden	148.6	713.7	:	12.6	6.07
UK	United Kingdom	838.4	5 645.4	2 599.4	:	13.24
IS	Iceland	:	:	24.4	16.5	:
NO	Norway	67.6	261.9	162.0	11.7	10.09
CH	Switzerland	76.8	250.3	792.8	:	3.50
US	United States	3 474.2	14 724.7	14 338.0	:	:

(1) For several countries national data are no longer available because their stock markets merged with other stock markets. EURONEXT is a merger of the stock markets of France, Belgium, the Netherlands and Portugal. OMX is a merger of the stock markets of Finland, Sweden, Denmark, Estonia, Lithuania and Latvia.
Exceptions to the reference year: IT: 2004, EU_V, DK, NO: 2001, BE: 2000
(2) The calculation is based on results of the Fourth Community Innovation Survey (CIS4).
(3) Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t.
EU_V: European Union - aggregate changing according to countries available (see explanatory notes). The value for EU15 is EU_V.

Source: Eurostat

In general, the amounts of early stage VCI are much lower than those of expansion and replacement capital. The case of Belgium was an exception in 2005, because the early stage VCI was higher than the VCI at the expansion and replacement stage. In absolute numbers the United Kingdom led in 2005, followed some way behind by France and Germany. 48% of the EU15 VCI at the expansion and replacement stage came from the United Kingdom, as well as 37% of the VCI at the early stage. In terms of percentage of GDP, Denmark and Sweden ranked first for VCI at the early stage followed by the United Kingdom. For VCI at the expansion and replacement stage as a percentage of GDP, Denmark was leading, the United Kingdom ranked second and Sweden third.

The ranking of the stock market capitalisation in absolute figures reflects the same order as for the VCI: the United Kingdom (EUR 2 599 billion) led, followed by France (EUR 1 491 bn) and Germany (EUR 1 035 bn).

The recent results of the Fourth Community Innovation Survey (CIS4) shed some light on the various factors hampering innovation activities. The indicator “Percentage of enterprises with high innovation activity citing lack of outside finance as a major factor hampering innovation” varies considerably from one country to another. While in Luxembourg the rate is very low, at 5.3%, in Latvia it is as high as 58.2%. However, these are the two extremes. For the majority of countries the rate is between 10% and 20%. Greece, Spain and Portugal are the only ‘old’ EU-Member States where the share exceeds 25%. This means that in these countries more than one out of four entreprises with innovation activities considers the lack of finance from

sources outside the enterprise as a very important factor hampering innovation in its activities.
The enterprise "birth rate" reflects the creation of new enterprises and the dynamism of an economy.

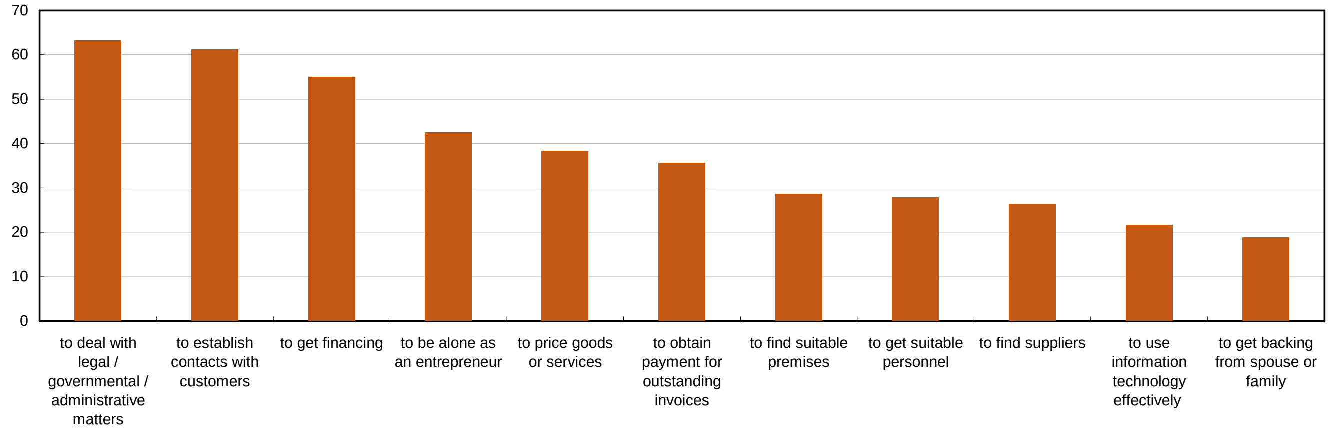
Romania had the highest birth rate of enterprises in 2003, with new enterprises making up 18.74% of the number of active enterprises. It was followed by Estonia and the United Kingdom with rates of 15.47% and 13.24% respectively.

Venture capital financing with low priority for start-ups

In the 2005 EU survey on the factors of business success, enterprise founders were asked about their difficulties when starting their enterprise. The first difficulty mentioned by a majority of new entrepreneurs (63%) was “dealing with legal/governmental/administrative matters”. The second difficulty - for 61% of entrepreneurs - was “to establish contacts with customers”, with "obtaining financing” cited as the third start-up difficulty (55%) for entrepreneurs of an average of available countries. On average, more than a half of the entrepreneurs voiced concern about this factor.

The averages to some extent hide the national differences. In some countries the problem of financing a start-up is regarded as much more serious than in others. Whereas 27% of Danish entrepreneurs cited access to finance as a start-up difficulty, the equivalent percentage in Luxembourg was 78%.

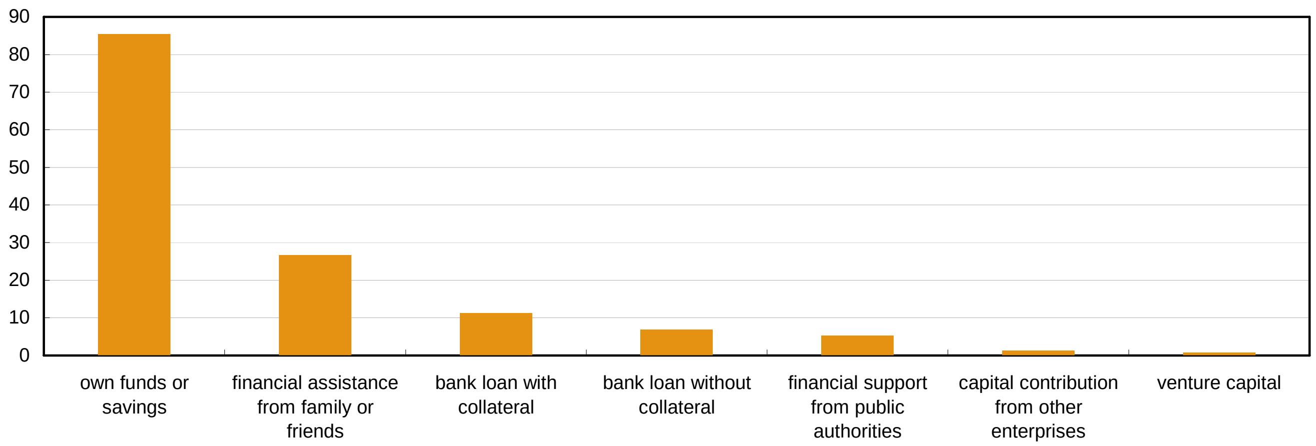
Figure 7: Start-up difficulties, average available countries (BG, CZ, DK, IT, LT, LU, AT, RO, SK and SE), in % of total replies for each item



Source: Eurostat, survey “Factors of business success”

A large majority of enterprise founders financed their business activity with their own funds or savings. Less than a third of them received financial assistance from family or friends. About 11% used a bank loan with collateral and 7% a bank loan without collateral. Only 5% or less chose one or more of the three other sources of financing for starting up their enterprise. Venture capital is chosen only as the last resort for start-up financing, with less than 1% of the entrepreneurs choosing this option.

Figure 8: Start-up financing, average available countries (BG, CZ, DK, IT, LT, LU, AT, RO, SK and SE), in % of total replies for each item

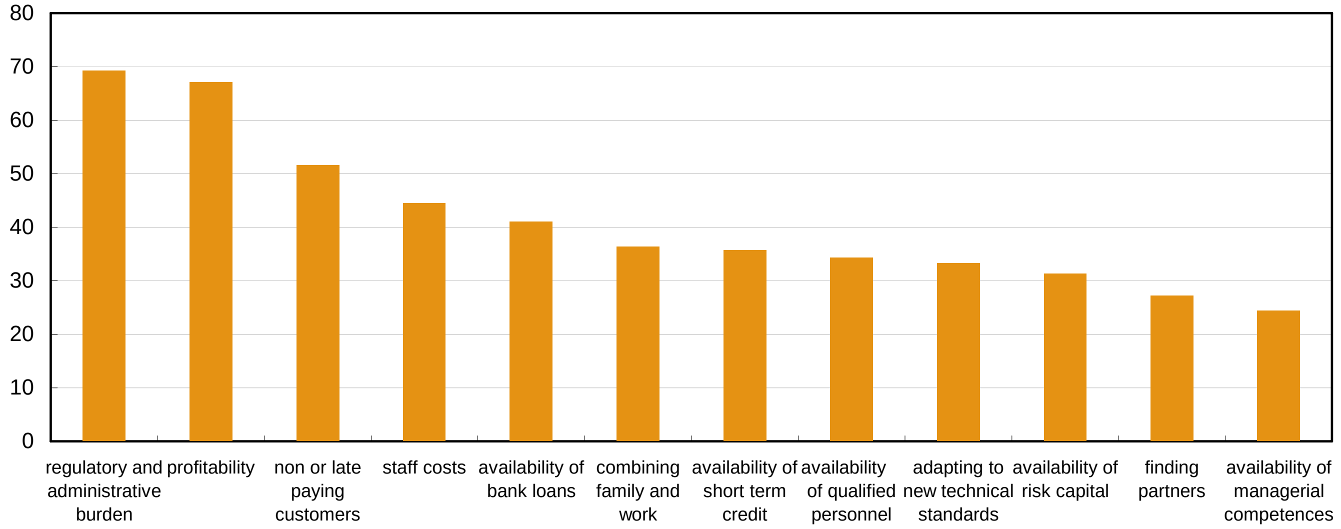


Source: Eurostat, survey “Factors of business success”

Looking now at the impediments to developing business activity, entrepreneurs were asked to chose in a list of twelve possible factors. It seems that all these factors act as impediments to a greater or lesser extent. The first and most important impediment is the regulatory and administrative burden, which is consistent with the start-up difficulties shown in Figure 7.

"Availability of risk capital" ranks on average in 10th place (33%) among the impediments to developing business activity. This means that one out of every three enterprise founders regards the availability of risk capital as an obstacle to their business' development.

Figure 9: Impediments to developing the business activity, average available countries (BG, CZ, DK, IT, LT, LU, AT, RO, SK and SE), in % of total replies for each item



Source: Eurostat, survey "Factors of business success"

Venture capital around the world: an overview

National Private Equity and Venture Capital Associations (NVCAs) exist in most of the European countries but also in many other countries all over the world, for example the NVCAs of China, Finland, Hungary, Israel and the United States. NVCAs can be found also in Africa, Russia, India and Brazil.

Most of the NVCAs started their activity in the 1980s or early 1990s. Their aim is to represent the venture capital community of a country or a region.

The European Private Equity and Venture Capital Association (EVCA) has represented the European private equity industry since 1983.

The missions of the NVCAs are similar all over the world and some main activities are as follows:

- To foster greater public understanding of the work of venture capital and private equity investors;
- To cooperate with institutions and associations at national, european and international levels;
- To reduce tax and company law obstacles for venture capital and private equity investors in the home country;
- To facilitate the search for and access to venture capital and private equity for those in need of it;
- To observe the market and analyse tendencies and developments;
- To encourage its members to exchange their experience and to cooperate together;
- To issue information, statistics and publications on venture capital and private equity in the country.

Who are the members?

In general there are at least two sorts of members: full (or primary) members and associated members.

Full members are in most cases investors such as banks and financial institutions but also other companies.

The associated members generally play the role of consultants and are mostly lawyers, economists, legal and tax advisers.

➢ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

Definitions and sources

Venture capital investments (VCI) are defined as private equity raised for investment in companies. The term does not include management buy-outs, management buy-ins and venture purchase of quoted shares.
The data are provided by the European Private Equity and Venture Capital Association (EVCA). Data for the US are based on data from National Venture Capital Association (NVCA).

Gross domestic product (GDP) at market prices is defined in accordance with the European system of national and regional accounts in the Community (ESA 95).

Stock market capitalisation is an indication of the size and performance of stock markets, and thus the importance of private investor capital in the economy. It is calculated by multiplying the volume of shares quoted on the stock market by their market value.
Data sources are the World Federation of Exchanges, Federation of European Stock Exchanges (FESE) and national institutions.

The **Fourth Community Innovation Survey** (CIS4) is the most recent of the surveys on innovation activity in enterprises covering EU Member States, EU Candidate Countries, Iceland and Norway. The observation period is 2002 to 2004.
Data are collected by national authorities and transmitted to Eurostat.

Birth rate is an indicator derived from the business demography data collection. It is defined as the number of enterprise births in the reference period (t) divided by the number of enterprises active in t.
Data were provided in all cases by national statistical institutes.

Under Eurostat's lead, the **survey on the 'Factors of Business Success'** was carried out by 13 Member States (CZ, DK, EE, FR, IT, LV, LT, LU, AT, PT, SI, SK and SE) and the acceding countries (BG and RO). EU_V consists of 10 countries (BG, CZ, DK, IT, LT, LU, AT, RO, SK and SE), whose data are most consistently available for dissemination. The survey started between June 2005 and January 2006 and was completed between September 2005 and April 2006.

The results of this survey give an insight into the factors that determine the success and growth of newly born enterprises, especially looking into motivations for starting up own businesses, barriers and risks encountered during the first years of existence, the current situation of the enterprise, and business plans for future development.
The data were generally collected by national statistical institutes.

Glossary

Early stage capital is defined as financing to firms before they initiate commercial manufacturing and sales, prior to generating a profit. It includes seed and start-up financing.

Expansion capital is defined as financing provided for the growth and expansion of a company which is breaking even or trading profitably. Capital may be used to finance increased production capacity, market or product development, and/or provide additional working capital. It includes bridge financing for the transition from private to public quoted company, and rescue/turnaround financing.

Replacement capital is defined as purchase of existing shares in a company from another private equity investment organisation or from another shareholder or shareholders. It includes refinancing of bank debt.

Seed capital is defined as financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.

Start-up capital is defined as financing provided for product development and initial marketing, manufacturing, and sales. Companies may be in the process of being set up, or may have been in business for a short time but have not sold their product commercially.

Web links

European Private Equity and Venture Capital Association (EVCA)

http://www.evca.com

DG enterprise and industry

http://ec.europa.eu/enterprise/index_en.htm

Abbreviations

EU_V	European aggregate based on available data
P	Provisional value
S	Eurostat estimation
USD	US dollar

Data presented in this Statistics in Focus show the data availability in Eurostat's reference database as of 20 November 2006.

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