Interreg Europe

Co-funded by the European Union

Access to equity funding for technology startups

*A Policy Brief from the **Policy Learning Platform** for a smarter Europe*

NOVEMBER 2024

SMART

Authors of this policy brief

Luc Schmerber
Thematic expert for a Smarter Europe at the Interreg Europe Policy Learning Platform
l.schmerber@ext-interregeurope.eu

Summary

One of the main challenges for technology-based businesses in the early development stages is their high capital needs and the higher-than-usual risks for financiers. Technology-based, especially deep tech startups are often deemed too risky for private investors as the tangible results (e.g. market-ready solutions) as well as the return on investment take longer to realize. Therefore, the financial support provided by the public sector can help bridge the financing gap in the market and can play a pivotal role in supporting innovation. As technology innovation is often done in critical fields such as health, space tech or green tech, providing target financial backing can be vital for improving our society and planet.

This policy brief focuses on policies and schemes dealing specifically with venture capital and equity investment in technology-based-startups. Those are more specifically **public investment funds** and the support to i**nvestment communities**. It shows the need for and benefits of such schemes and presents good practices from the Interreg Europe community. Finally, an outlook on current trends in equity investment is provided.

The knowledge, solutions and good practices showcased in this policy brief come mainly from Interreg Europe projects.

Table of Contents

Interreg Europe good practices

Bridging the equity gap

Technology-based startups, particularly deep-tech startups, often face several distinct funding challenges due to the nature of their operations, market environment, and innovation-driven goals. Some of their key issues are:

Long and Capital-Intensive Development Cycles

Many tech startups (e.g., in hardware, deep tech, or biotech) require extended R&D periods as well as significant upfront investment in specialized equipment, software, or talent, before bringing a product to market. The lack of immediate revenue or traction can make it harder to raise subsequent funding rounds. Even after initial funding, scaling up the business requires significant follow-on capital. Investors may expect rapid growth and short-term returns, but deep-tech startups or those with complex products often need longer time frames to generate profits.

High Risk Perception - Lack of Collateral for Traditional Financing

Tech startups, particularly in early stages, are seen as high-risk investments due to the uncertainty surrounding product development, market demand, and scalability. Investors may hesitate to fund them without clear proof of concept. At the same time, many tech startups lack tangible assets (like real estate or equipment) to offer as collateral for traditional loans. They are therefore often excluded from bank financing, forcing them to rely heavily on equity financing.

Investor Specialization

Tech-based startups often require investors with specialized knowledge in the sector (e.g., life sciences, artificial intelligence). However, finding investors who both understand the technology and are willing to invest can be difficult.

While the above challenges are common to technology-based startups all over the world, it is usually considered that, in comparison to the USA:

- European investors are more conservative, leading to less risk capital for highly innovative but risky ventures.
- Europe's fragmented regulatory and financial landscape limits cross-border investments and scale-up opportunities.
- The venture capital market in Europe is less mature, with fewer deep-pocketed VCs specializing in high-risk sectors like deep-tech.
- Europe has fewer successful exit opportunities, making it harder to attract the scale of investment that U.S. startups enjoy.

As a result of the challenges above and the specificities of the European investment market, technology-based startups, particularly deep-tech startups, are often facing a so-called equity gap, i.e. an increased difficulty to access funding for their development, compared to less innovative and less risky ventures.

To address these challenges, the European Union as well as national and regional policy makers have launched different initiatives, aiming to increase investment opportunities and support for startups. Those include typically specific grants and loans, as well as support mechanisms such as business incubators and accelerators, and access to equity funding.

This policy brief focuses on policies and schemes dealing specifically with venture capital and equity investment in startups. Those are more specifically **public investment funds** and the support to i**nvestment communities**.

Note: Support mechanisms, such as for instance business incubators and accelerators have been addressed in a previous Policy Brief on Business incubation: from startup to scaleup. Grants and loans have also been covered in part in other publications from the Interreg Europe Policy Learning Platform and are also usually more familiar to the startup community.

Investment in technology startups in European policies

Mobilizing institutional and other private investors in Europe to invest in the scaling of European deep-tech start-ups is one of the flagship initiatives of the New European Innovation Agenda adopted in July 2022, which aims to position Europe at the forefront of the new wave of deep tech innovation and start-ups. In line with this strong policy claim, the European Commission supports technology-based and deep-tech startups in different ways, through various initiatives and funding programmes. Here are some key mechanisms:

1. **Horizon Europe**: This is the EU's main funding programme for research and innovation, providing grants for innovative projects, including deep-tech ventures. The programme encourages collaborations between academia and industry.
2. **European Innovation Council (EIC)**: The EIC provides targeted support for deep-tech startups through funding, mentorship, and networking opportunities. It offers various funding instruments, including the EIC Accelerator, which provides equity financing and grants to startups aiming to develop high-risk, high-impact innovations.
3. **Digital Europe Programme**: This programme focuses on enhancing digital technology adoption, supporting startups that work on AI, cybersecurity, and advanced digital skills.
4. **Venture Capital Funds**: The European Commission supports the establishment of venture capital funds, which invest in high-potential startups, including those in deep-tech sectors.
5. **Startup Europe**: This initiative aims to connect startups with resources, networks, and funding, fostering a collaborative environment across Europe.
6. **National and Regional Initiatives**: Many EU member states implement their own support programmes aligned with EU goals, focusing on technology transfer, incubation, and acceleration for deep-tech startups. Quite often, those initiatives are co-finance by European Structural Funds.

While the European support for technology startups takes multiple forms, we focus in this policy brief on such schemes dealing specifically with equity financing.

EIC Fund and EIC Accelerator

European Innovation Council

The European Innovation Council (EIC) Fund was created as part of the broader European Innovation Council (EIC) under the Horizon Europe programme. The EIC Fund was set up to provide equity financing for high-potential, high-risk startups, primarily focusing on deep-tech companies. It was set up as a capital fund under private law with the European Commission as a shareholder to fund companies selected under the EIC Accelerator. The creation of the EIC Fund marked a significant step in the European Commission's approach to directly investing in startups, offering not just grants but also equity, aiming to bridge the funding gap for early-stage companies in Europe.

The European Innovation Council (EIC) has set-up a European wide acceleration programme – **EIC Accelerator –** aiming at developing and scaleup innovations with the potential to create new markets or disrupt existing ones. The **EIC Accelerator** is a funding programme under Horizon Europe that offers support to start-ups and SMEs that:

- have an innovative, game changing product, service or business model that could create new markets or disrupt existing ones in Europe and even worldwide,
- have the ambition and commitment to scale up,
- are looking for substantial funding, but the risks involved are too high for private investors alone to invest.

Besides offering grants up to € 2.5 million, the EIC accelerator also provides **up to € 15 million direct investment** for market deployment. Grants and direct investments can also be combined. All EIC supported projects and companies get access to coaching, mentoring, partnering and other EIC Business Acceleration Services.

In addition to the EIC accelerator, the EIC Fund also provides other funds with **co-investment opportunities** in the companies from the EIC Accelerator portfolio.

EIT – European Institute of Innovation and technology

The **European Institute of Innovation and Technology** (EIT) was created by the European Union in 2008 to strengthen Europe's ability to innovate. The EIT is an integral part **of Horizon Europe**, the EU's Framework Programme for Research and Innovation. The EIT supports pan-European partnerships, **EIT Knowledge and Innovation Communities** (KICs), composed of leading companies, research labs and universities each dedicated to solving a pressing global challenge, from climate change to health, to renewable energy. A significant part of the KICs activities consist in supporting startups in different ways, combining funding, including equity investment, and services which make the KICs comparable to business incubation and acceleration programmes.

Until 2022 (latest figures available), the EIT and the KICs had for instance:

- supported 7.800 startups,
- provided approximately EUR 350 million provided in EIT funding for business creation activities,
- **attracted EUR 7.1 billion investment attracted by in start-up**s and scale-ups supported EIT KIC.

European Investment Fund (EIF)

The European Investment Fund (EIF) is a leading financial institution in the European Private Equity market. Through their venture capital and private equity interventions, they play a crucial role in the creation and development of high-growth and innovative SMEs by facilitating access to equity for these companies across the entire life cycle of corporate innovation. EIF does so by investing in venture and growth capital, from the very earliest stages of intellectual property development into technology transfer, to more mature phases of development. EIF's equity activity is principally backed by resources from its main shareholders, the European Investment Bank (EIB) and the European Commission.

The EIF is also strongly involved in the implementation and management of further larger European initiatives, such as the InvestEU Fund, the European Tech Champions Initiative and the COSME – Equity Facility for Growth and the European Scale-up Action for Risk capital Programme.

European Tech Champions Initiative (ETCI): ETCI is a new initiative launched in 2023 with EIB Group resources alongside contributions from several Member States. ETCI will both invest at company level and support institutional investors. As such, ETCI is primarily a fund of funds structure with €3.85 billion of capital, which will be investing in large-scale venture capital funds, which will in turn provide growth financing to European tech champions in their late-stage growth phase. ETCI is expecting to make 10-15 investments in large VC funds of approx. € 1 billion. On company level, ETCI aims for boosting funding for promising high-tech companies that need to **raise amounts of over €50 million** to compete on a global scale whilst staying in Europe. The ECTI is managed by the EIF.

COSME – Equity Facility for Growth (COSME EFG): Through COSME EFG, EIF invests in selected funds – acting as EIF's financial intermediaries – that provide venture capital and mezzanine finance to expansion and growth stage SMEs, in particular those operating across borders. The fund managers operate on a commercial basis, to ensure that investments are focused on SMEs with the greatest growth potential. The list of financial intermediaries currently operating under COSME EFG is available here.

European Scale-up Action for Risk capital (ESCALAR): Leveraging InvestEU resources, the EIF has launched the new European Scale-up Action for Risk capital (ESCALAR) Programme. Under ESCALAR, the EIF provides equity investments to, or alongside, funds in the areas of venture capital and private equity whose strategy focusses on European scale-ups. Eligible funds are based in, or investing in, the EU Member States and Overseas Countries and Territories (OCTs), Norway and Iceland.

Invest EU Fund

The InvestEU Fund supports private and public investments in four policy areas which represent important priorities for the Union and bring high EU added value:

- sustainable infrastructure;
- research, innovation and digitization;
- **small and medium-sized businesses;**
- social investment and skills.

The InvestEU Fund expects mobilize more than €372 billion of public and private investment through an EU budget guarantee of €26.2 billion. About € 6.9 million (out of 26.2) are allocated to support European SMEs, with a focus on those with difficulties of access to finance, including technology startups. The following picture shows the equity products implemented by InvestEU:

	Technology transfer	Business angels	Venture capital	Lower mid-market & hybrid debt equity
Risk sharing mechanism	Investment in funds often alongside other public investors	Investment matching for BAs via co-investments	Investment in funds often sending a positive signalling effect to private investors	Investment in funds often sending a positive signalling effect to private investors
Benefit for small businesses	Funding for research projects reaching the development phase	Pre-seed funding for early stage business ideas	Funding for Europe's most disruptive founders in ICT, life sciences and social impact	Funding to unlock the growth potential and boost internationalization of SMEs and small mid-caps

Source: EIF, Webinar on Setting up regional funds with the European Investment Fund

The target thematic areas addressed by the equity products of the InvestEU Fund are:

- Enabling sectors (crucial sectors which can sustain the EU as an independent and autonomous economy)
- Climate and environmental solutions
- Digital and creative and cultural sectors:
- Social impact

European Structural Funds

While European Structural Funds cannot be considered as equity investment funds for technology-based startups, it is worth mentioning that at the national and regional level those funds can be channeled towards dedicated initiatives and support the establishment of public investment funds.

Public investment funds

Public investment funds play a critical role in fostering investment in technology-based startups. Their main objectives often align with stimulating innovation, bridging funding gaps, and supporting the growth of high-potential companies, especially in sectors where risk is higher and private capital is less willing to invest. Public investments funds share a series of characteristics which differentiate them from private investment funds:

- **Leveraging private capital:** Public investment funds attract private investors by sharing financial risk, encouraging more private-sector investment in high-risk tech startups.
- **Promoting regional and sectoral development**: These funds aim to boost tech entrepreneurship in underdeveloped regions or key sectors like clean tech, AI, and cybersecurity, addressing investment imbalances.
- **Supporting long-term growth:** Public funds support startups over longer time horizons, allowing tech startups to focus on sustainable growth without the pressure of short-term returns.
- **Aligning public and private interests:** Public funds align policy goals (e.g., innovation, job creation) with private investors' profit motives, fostering a robust startup ecosystem.
- **Building investor confidence:** Public funds provide validation to startups, attracting additional private investment by acting as a "stamp of approval" for potential success.
- **Enhancing investor networks and expertise:** Public funds create a network of public, private, and institutional investors, offering startups access to capital, mentorship, and market insights.
- **Ensuring financial sustainability:** Public funds recycle returns into new investments, creating a self-sustaining cycle that supports future rounds of startup funding.

In summary, the main objectives of public investment funds for tech-based startups are to **mitigate investment risks, attract private capital, and support sustainable growth and innovation in strategic sectors**. By addressing these objectives, public investment funds create a supportive environment for the development of high-potential technology ventures.

In the following we will explore different types of public investment funds which have been highlighted by members of the Interreg Europe community, either in projects or events.

Funds of funds – leveraging European Investment and Structural Funds

A fund of funds is an investment strategy where a fund invests in a portfolio of other investment funds, rather than directly in companies or startups. Those funds, in turn, invest in a range of startups or more mature businesses. This model allows the fund of funds to diversify its investments across several sectors, industries, and stages of business development, thereby reducing risk while gaining exposure to a broad portfolio of companies. The fund of funds management selects and monitors the underlying funds, using their expertise to optimize the returns across various markets and sectors.

Public investment funds – like for instance the EIF - often take the form of funds of funds because it aligns with their broader policy goals, such as fostering innovation, stimulating economic growth, and reducing investment risks for the private sector. Here are the main benefits of the fund of funds model, both from a policy and from an investment perspective:

POLICY BENEFITS	INVESTMENT BENEFITS
Stimulating private investment Fund of funds structures can encourage private investors, as well as further public investors, to invest by reducing the risk. When public capital is involved, it	**Diversification of risk** By investing in multiple venture capital or private equity funds, public funds of funds can spread risk across a broad portfolio of startups or businesses.

often boosts the confidence of private investors in the fund's quality and due diligence. Additionally, funds of funds lower entry barriers by allowing investors, including public entities, to access a diverse portfolio without the need for individual investment management, making it easier to participate in high-risk sectors like startups.	This allows for broader exposure to different industries, geographies, and business stages. This helps mitigate risks associated with concentrated investments in a single startup or sector.
Alignment with policy objectives Public funds of funds can target specific economic development goals, such as promoting innovation in strategic industries or stimulating growth in underserved regions, thus aligning investment strategies with national, regional or sectoral development priorities, such as deep-tech. This ensures public funds are directed towards areas with high societal value.	**Efficiency in Capital Deployment** Funds of funds entrust capital allocation to experienced fund managers, ensuring that the funds are invested in high-potential businesses through established investment firms with proven track records. They also leverage the specialized knowledge and experience of private fund managers, ensuring that public funds are deployed effectively and efficiently.

In summary, public fund of funds provide diversification, expertise, and alignment with policy goals, while also encouraging private investment, making it a highly effective model for supporting business investment, particularly in high-risk sectors like technology-based startups, and especially deep-tech startups.

The following good practices from the now concluded Interreg Europe project Innova-FI provide interesting examples on how national or even transnational funds of funds can leverage private investments by mobilizing European and national public sources.

GOOD PRACTICE 1: Baltic Innovation Fund (BIF) and Baltic Innovation Fund 2 (BIF 2)

Innova-FI
Interreg Europe

Individual venture capital markets in the Baltic countries are of very limited size and are unattractive to international investors. For this reason, the EIF proposed to set up the BIF and BIF2, a Fund of Funds intended to promote the development of venture capital markets in the three Baltic States in order to foster SME competitiveness. BIF and BIF2 illustrate how different countries - here the three Baltic States – can act together, enabling to make small capital markets more attractive for investors and creating further financing possibilities for enterprises with high growth potential.

BIF and BIF 2 aim to build a balanced **portfolio of growth and later-stage equity funds** with an investment focus on the Baltic States, having an appropriately diversified number of underlying investments, which provide, directly or indirectly, equity and/or hybrid debt/equity investments or other forms of risk financing to portfolio enterprises. In addition, BIF and BIF 2 pursue **co-investment opportunities** alongside business angels, investment funds, family offices, or institutional investors into portfolio enterprises.

BIF and BIF2 invest indirectly in micro, small and medium-sized enterprises as well as Small Midcaps with high growth potential operating in the Baltic region and outside the Baltic region.

Click here to find out more about this practice.

GOOD PRACTICE 2: EquiFund

Another relevant practice highlighted by the Innova-FI project is the Greek government's fund of funds, **EquiFund**, which has been launched to mitigate the low level – one of the lowest in Europe – of venture capital and private equity activity in Greece. The EUR 260m fund was co-financed by the EU through Structural and Investment Funds (ESIF) resources from the Operational Programme Competitiveness, Entrepreneurship and Innovation 2014-2020 and through the European Fund for Strategic Investments (EFSI). Following the successful implementation of the Equifund, the Hellenic Republic and the European Investment Fund are implementing (starting 2024) a follow-up programme: The EquiFund II initiative is a EUR 200m Fund of Funds co-financed by Cohesion policy funds and national resources of the Hellenic Republic, entrusted to be managed by the EIF. It aspires to help innovative companies operating in **Life sciences & Healthcare** and **Sustainability & Social impact** get better access to equity financing.

Click here to find out more about this practice.

Both the BIF funds and the Equifund have been set up with the support of the European Investment Fund, as well as channeling ERDF funds in addition to national sources of funding. They are both successful examples of public investment funds addressing a national market failure in terms of private capital investment in equity and demonstrate thereby the opportunities for policy makers taking action in favor of technology-based startups. They also show that such endeavors are possible in rather small markets.

All those practices also highlight that the support needed to setup such rather complex funds is not just financial. The process of setting up a fund goes through several stages, including screening and due diligence by the European Investment Fund. Interaction with experts from the European Investment Fund helped the public investors to improve their concepts.

Co-investment funds

Co-Investment brings together public and private funds to offer much needed support to young and growing SMEs. Differently from funds of funds, they invest directly in companies. Benefits are created by connecting an investment bank or fund and private investors, such as venture capital funds and business angels. First and foremost, companies get more funding by the pooling of resources. Secondly, the use of public funds is supported by the private investors who actively contribute to the management of the companies invested in and therefore increase the likelihood of successful business management. Therefore, the practice generates a win-win situation for SMEs, venture capital and business angels, and for the use of public funds.

GOOD PRACTICE 3: Scottish Co-Investment Fund

The Scottish Co-Investment Fund (SCIF) is funded by the Scottish Investment Bank (SIB) with support from the European Regional Development Fund and provides equity funding to eligible businesses. SCF invests on a pari passu basis with one or more of 29 accredited private sector investment partners. The main focus is on young and growing SMEs who are facing the challenges of the "Funding Gap". These companies tend to have willing investors but are still short of the investment they need to fully achieve their potential. The scheme also aims to demonstrate that investment in these types of company could be successful and attract more venture capital. SIB co-invests with angel investors or syndicates or with other qualifying investment funds.

Click here to find out more about this practice.

GOOD PRACTICE 4: Co-Investment Fund, Lithuania

The Co-investment Fund II is a 'venture capital instrument' of the Ministry of Economy and Innovation of Lithuania. By investing with private investors (business angels, venture capital funds), the objective of the Co-investment Fund II is to increase the access of risk capital funds for start-ups, SMEs, and private companies in Lithuania. The Co-investment Fund II also aims to respond to a common market failure related to investments and access to funds for early-stage innovative start-ups and private companies working on risky and uncertain innovative projects.

The objective of the Co-investment Fund II is not only to facilitate funding for companies, but also to: (a) assist them in their development in order to increase their growth possibilities and to evolve successfully; and (b) to attract and leverage additional private resources, e. g. private risk capital funds and business angels.

Click here to find out more about this practice.

A noteworthy characteristic of both practices above is that, in addition to established investment funds, they explicitly address business angels, i.e. individuals who invest their own money into new or early-stage companies and business angel syndicates, i.e. groups of angels who come together to make larger investments. Business angels represent an additional strong investment source for technology-based startups. Business angels are especially valuable investors as they often bring deep industry knowledge and a network of contacts, which can help startups grow and find additional resources. They also often have a strong commitment to their local business environment and constitute therefore an important part of entrepreneurial ecosystems.

Seed and Venture Capital Funds

Besides funds of funds and co-investment funds, a number of regional and national policy makers have also set up funds which are directly investing in startups. Such solutions usually aim to address a significant market failure in terms of availability of equity funding for technology-based startups. They are expected to contribute not only to improve the access to funding for startups, but also to serve as role models for further actors and encourage them to follow the example for the public venture funds. Interesting examples for national venture funds are the Slovene Enterprise Fund and Portugal Ventures, which have both been highlighted by Interreg Europe projects.

GOOD PRACTICE 5: Slovene Enterprise Fund, Slovenia

The Slovene Enterprise Fund, public financial fund, owned by the Republic of Slovenia, financially supports internationalization of young enterprises with strong growth potential with seed capital and venture capital. The support is provided in two forms:

1. **Seed capital** for young enterprises in development phase with growth potential and potential of creating new jobs. The capital is provided either as a convertible loan of € 75.000 for micro and small enterprises needing funds for further product development and testing or capital investment of € 200.000 for young enterprises with a completed product on market, which want fast expansion and market growth. In both cases recipients of funds receive financial and non-financial incentives.
2. **Venture capital** including entry into the ownership structure and management of the enterprise in cooperation with capital investments from private investors.

Click here to find out more about this practice.

GOOD PRACTICE 6: Portugal Ventures

To stimulate the creation of technology-based startups, in a context lacking a significant number of private players, the Government created Portugal Ventures, a company in the State Business Sector. In 2012, the company took on the role of reference investor in venture capital at a national level, becoming one of the main drivers of the national entrepreneurial ecosystem. In order to deliver a better strategy and build up effective scouting Portugal Ventures formed a network of more than 70 partners, allowing them to connect with the main actors of the entrepreneurial ecosystem. This network helps to materialize a programme of regular interaction and close proximity to universities, R&D and interface centers, incubators and accelerators, detecting opportunities for the entrepreneurial ecosystem. To increase leverage, Portugal Ventures also addressed the market failure from the supply side, promoting a network of capital investors to facilitate investment syndication operations.

Click here to find out more about this practice.

For both practices, it is important to highlight that the fund managers have created strong relationships with local business support providing organisations, which are directly in relation to the potential beneficiaries, i.e. entrepreneurs and startups. This collaboration brings value to both sides, as it 1) helps the funds to generate a flow of potential deals and 2) provides local incubators, accelerators and other initiatives fostering entrepreneurship with direct access to the investment community and a concrete funding opportunity for all suitable startups.

While the examples above are national funds, Interreg Europe projects have been leading a lot with regional initiatives and were able to generate significant policy improvements, often in relation with accelerator programmes. In the following, three examples of such improvements induced by different Interreg Europe projects illustrate this point.

Creation of a new accelerator program for the agrifood sector in Normandy, France

In the framework of the FFWD Europe project, the French partner Normandy Development Agency modified its existing regional acceleration prgramme following intensive exchanges with the German partner Investment and Business Development Bank Lower Saxony – Nbank . Learning during a study visit from the German accelerator SeedHouse and its specific approach to foster startups from the agrifood sector, as well as from the regional Venture capital fund NSeed, Normandy Development Agency started to design a new sectorial acceleration programme for the agriffod sector, which is one of the largest economic sector in Normandy.

Normandy Development Agency managed to convince two major regional investment organisations, which were already involved in the funding of the regional acceleration programme. of the added value of such a program: Crédit Agricole, a bank historically specialised for agriculture, and Normandie Participations, the regional investment fund. Both funding institutions provided their support to set up the programme - and are investing in companies, and the first batch of the new acceleration programme started as a pilot in January 2021 under the name Fast Forward Agrifood, under the umbrella of the Fast Forward Normandie (FFWD) accelerator. It is now integrated into the offer of the FFWD accelerator.

Creation of a new seed capital instrument in the Valencia region, Spain

In the framework of the iEER - Boosting innovative Entrepreneurial Ecosystem in Regions for young entrepreneurs project, the iEER Boost Growth Action Plan for the Valencia Region managed to impact different financing instruments, including venture capital instruments.

By using resources from the ERDF Operational Program of the Valencia Region 2014-2020 funds, within Priority Axes 3: 3.a and 3.b fostering entrepreneurship and innovation, two risk capital instruments (seed and expansion) were created:

- A seed capital instrument targeting entrepreneurial projects and micro-enterprises in an initial stage of development, by taking part in their share capital or granting other quasi-capital instruments.
- An expansion capital line, also called third stage capital financing or mezzanine financing, aimed to the immediate growth and expansion of a profitable company, by taking participation in its capital stock or granting other quasi-capital instruments as relevant.

Those instruments were placed under the responsibility of the IVF Valencian Institute of Finance.

A further interesting achievement triggered by the Interreg Europe programme is a contribution to the setup of anew Accelerator and investment fund in Tartu, Estonia, trough a peer review, which involved inter alia SPEED UP and Innova-FI.

ROHEKIIRENDI

Support to the design of a Green Deal Accelerator in Tartu, Estonia

On 29 and 30 June 2021, the Policy Learning Platform organised a peer review in Tartu (Estonia). The aim was to advise local stakeholders in setting up their Green Deal accelerator and related impact investment fund. The peer review was hosted by the Tartu City Government Business Development Department. Raimond Tamm, Deputy Major, City of Tartu, said about the peer review: “The exchanges gave us good reflections on our ideas and brought us new views on our ambition to launch an innovative GreenTech accelerator in Tartu. After these two days I feel much more confident that we are heading in the right direction.”

The new accelerator and investment fund was launched in February 2024 and is currently running 4 different accelerator programmes in the areas of Local Government green transition, Mobility and Logistics, Forrest and agriculture, Energy and Construction. More information on all 4 programmes can be found here. While it does currently only provide grants to the beneficiaries, the local partners are preparing the launch of a seed fund of EUR 20m.

POLICY LEARNINGS

Many regional and national authorities are creating co-investment schemes or partnering with venture capital firms and private investors to pool resources and mitigate risks. By offering matching funds or guarantees, policy makers encourage private capital to flow into high-tech startups that may otherwise be perceived as too risky. In case the lack of private sources for venture funding opportunities for startups is strong, public authorities are also setting up public funds, which are directly investing in technology-based startups. Here are the main lessons learned from the Interreg Europe community about public investment funds, collected in the framework of events hosted by the Interreg Europe Policy Learning Platform, such as for example our webinar Setting up regional funds with the European Investment Fund.

1. The European Investment Fund, as well as national authorities, can successfully enable investment risks to be significantly reduced and private investment to be leveraged.

The practices displayed here above clearly show that support from either the European Investment Fund or national funding organizations helps to create funds targeting comparatively small investment markets. Those can be national, such as in the Baltic countries, Greece and Portugal, or even regional. Financial support, combined with the reduction of risk for regional or national investors through risk-sharing, is key to leveraging significant amounts of private investment in new and innovative entrepreneurial ventures.

2. Strong expertise is available on the European level to setup public or public-private investment funds.

The support provided by the European Investment Fund is not just financial. The process of setting up a fund goes through several stages, including screening and due diligence by the European Investment Fund. Interaction with their experts helps investors improve their concepts. In some cases, such as the Baltic Innovation Fund, the European Investment Fund also provides operational management support.

3. Transnational funds may be less complex to set up than you think.

The experience of the Baltic Innovation Fund showed that it was possible for three countries (Estonia, Latvia and Lithuania) and the EIF to reach agreement on the terms of the Baltic Innovation Fund within three months. While it may take longer than three months, a common understanding of objectives among investors makes the process much smoother than one might expect.

4. Regional investment funds can be set up without state aid restrictions.

State aid rules exist to prevent unfair competition and distortion of the single market. However, public investment funds often operate under market conditions as far as the SMEs benefiting from the investment are concerned and therefore do not fall under State aid rules.

5. Investors and fund managers should not be the same organization.

Public investment funds should be managed by a professional organization separate from the investors to avoid conflicts of interest and loss of focus on investment terms and conditions.

Investment communities

Besides providing funding to early-stage businesses in different ways, policy makers also often aim for promoting a stronger investment culture in order to increase durably the amount of private capital invested in early-stage technology-based businesses. This is partly done through co-investment schemes, which have been displayed earlier in the document, but also through awareness raising and promotional activities, which aim for developing stronger investment communities. In this chapter, we explore two successful approaches observed in the Interreg Europe community: **startup festivals** and **investor networks**.

Startup festivals

From the perspective of the regional venture capital landscape and investment opportunities for startups, startup festivals play a critical role in promoting and improving venture capital and equity investment in technology-based startups. These events create vibrant ecosystems bringing together entrepreneurs, investors, corporate partners, and other stakeholders to foster innovation, collaboration, and funding opportunities. The following table displays the main ways in which startup festivals contribute to developing the venture capital landscape:

BENEFIT	DESCRIPTION
Facilitating Networking Between Startups and Investors	Festivals provide a platform for startups and venture capitalists to interact directly. These face-to-face interactions help investors discover promising ventures and allow startups to pitch their ideas in an informal setting. Meeting in person fosters trust, relationship-building, and a deeper understanding of the startup's business model. It increases therefore the likelihood of securing investment.
Showcasing Emerging Technologies	Many startup festivals are specifically geared toward showcasing innovative technologies in fields like AI, biotech, fintech, and deep-tech. Demonstrations, pitch sessions, and product exhibitions allow investors to see firsthand how startups are applying cutting-edge technology to solve real-world problems. By highlighting the practical applications and commercial viability of new technologies, these events help reduce the perceived risk for investors. Startups can also gain immediate feedback from VCs, which can help refine their product or service, making them more attractive for future investments.
Access to Early-Stage Startups	Startup festivals often attract early-stage startups, which are in critical need of seed and Series A funding. Venture capitalists attend these events specifically to

	identify high-potential startups before they become widely known, giving them an early advantage in securing equity deals. VCs gain access to a pipeline of fresh talent and innovative ideas. Early investment in these startups can lead to higher returns, as they often represent the most scalable opportunities.
Encouraging Cross-Border Investment	Many startup festivals have an international focus, attracting both startups and investors from different countries. This helps promote cross-border investments and collaborations. Cross-border exposure allows startups to tap into larger, more diverse pools of capital, while investors gain access to innovations from different regions. For example, European startups may attract American VCs who are interested in expanding into the European market, and vice versa.
Creating Competitive Investment Opportunities	Startup festivals often host pitch competitions, where startups compete for visibility, funding, and prizes. These competitions attract a wide audience of investors, many of whom compete to invest in the most promising startups. Competition among investors can drive up the valuations of high-potential startups, providing founders with better funding terms. It also speeds up the investment process, as VCs may act quickly to secure equity before other investors do.

Large regional startup events – usually taking place once per year – have become relatively common across Europe and are drivers of networking between companies and investors and enablers of venture and equity capital investments. This has been and still is the case for two of the oldest and largest startup festivals that have played an important role in developing the ecosystems in smaller EU countries, in this case Estonia and Lithuania. These events have grown larger are more sophisticated over the years and have been an important meeting point between national and international businesses as well as investors.

GOOD PRACTICE 7: sTARTUp Day Business Festival, Tartu, Estonia

Innova Foster
Interreg Europe

Since 2016, **sTARTUp Day** has become biggest startup festival in the Baltics. The festival usually lasts for three days and includes several pitching competitions, seminars, large expo area and an organized matchmaking area. The event is attended by startups, traditional entrepreneurs, investors, innovators and students. sTARTUp Day has evolved to a massive event with nearly 4.000 participants and over 100 speakers and investors from 65 countries.

The aim of the event is to connect startup-minded people and celebrate entrepreneurship in the city of Tartu and to create an attractive environment for businesses and start-ups in Tartu. From the onset the organization of the festival has relied on tight cooperation between stakeholders of the local innovation ecosystem: accelerators and incubators, science parks, R&D centers, universities and the city government. It has therefore been a strong ecosystem building initiative in itself and led to further cooperation avenues.

Click here to find out more about this practice.

GOOD PRACTICE 8: Startup Fair in Lithuania

START EASY
Interreg Europe

Startup Lithuania, the Lithuanian one-stop-shop agency, is holding annually the Startup Fair with the aim to have startups, investors and ecosystem builders discuss the most relevant topics for their work. In addition to this, the conference has its B2B meetings part, where startups can schedule the meeting with mentors, angel investors, venture capitalists or potential employees. The StartupFair always ends with the pitch battle, where pre-selected startups pitch their ideas and compete on stage in front of the influential jury: the investors, startup ecosystem experts and the audience.

Click here to find out more about this practice.

Both good practices provide interesting insights in how to organize startup festivals tailored to the characteristics of the local startup ecosystem and the key ingredients for success, such as matchmaking areas, pitching competitions, presentations and discussions bringing startups and investors together, networking opportunities, etc. Obviously, many other regions with strong entrepreneurial ecosystems are equally holding such events with success. The possibly most famous of those events is the annual Slush festival in Helsinki.

Investor networks

Investor networks, such as business angel networks, are fundamental in promoting venture capital and equity investment in technology-based startups. They facilitate access to capital, provide strategic mentorship, improve deal flow, mitigate risks through co-investment and syndication, and support startups across different stages of development. By pooling resources, expertise, and networks, these investor groups help technology startups overcome funding challenges, particularly in high-risk and high-reward sectors like deep-tech and AI, contributing to the overall growth of the innovation ecosystem. Below are the key roles that these networks play:

BENEFIT	DESCRIPTION
Pooling Capital to Increase Investment Power	Investor networks enable individual investors, especially business angels, to pool capital for collective startup investments. This approach is crucial for tech startups with high R&D costs, providing access to larger sums and more efficient funding rounds.
Risk Mitigation and Diversification	Investing in early-stage tech startups is risky due to uncertain markets and high failure rates. Investor networks reduce risk by enabling portfolio diversification across multiple startups, attracting more investors to high-risk, high-reward sectors like deep-tech.
Access to Expertise and Mentorship	Investor networks consist of individuals with expertise in areas like technology, business, and finance. For tech startups, this expertise is crucial in overcoming challenges. Beyond funding, networks offer mentorship, strategic advice, and industry connections, increasing the chances of success and attracting more investment. Experienced investors help startups navigate regulations, market strategies, and scaling.
Improved Deal Flow and Access to High-Quality Startups	Investor networks leverage connections with entrepreneurs, incubators, and universities to source high-potential startups. They vet startups before presenting them to members, ensuring higher-quality deal flow and better investment prospects. Startups, in turn, access a larger pool of investors, improving their chances of securing funding.
Facilitating Co-Investment and Syndication	Investor networks, especially VC syndicates, enable co-investment by pooling multiple investors to fund a single startup. This allows startups, particularly in capital-intensive sectors like deep tech, to raise larger rounds and access significant funds. For investors, syndication spreads risk and opens access to larger deals.
Increasing Investor Confidence Through Collective Wisdom	In investor networks, collective decision-making leverages members' combined expertise, adding due diligence and reducing uncertainty. This boosts investor confidence in high-risk tech startups. When experienced members back a startup, others often follow, increasing investment, which is vital for startups with unproven models or long R&D timelines.

The following two practices from the Interreg Europe community illustrate how regional policy makers support such networks.

GOOD PRACTICE 9: Grant Programme to Business Angel Networks of ACCIÓ-Catalonia Trade & Investment, Spain

This grant programme awarded by the Government of Catalonia through ACCIÓ-Catalonia Trade & Investment addresses the accredited Business Angels Networks in Catalonia with the aim to foster investment into Catalan startups and businesses with high growth potential. The amount granted is based on the funded deals closed annually by these networks. The beneficiary networks can receive funding up to € 30.000 per year, depending on the number of successful deals they have achieved.

Since the creation of this grant programme in 2012, the funding deals of the Business Angels Networks have increased significantly. By providing the grants only to accredited Business Angels or networks, the programme helps to better map the financial ecosystem and to have a comprehensive view of the different actors, which increases the efficiency of the policy making process.

Click here to find out more about this practice.

GOOD PRACTICE 10: Building an entrepreneur competence and investor network, Norway

This is an interesting annual programme tackling the issue of lacking private investments. This is done by offering training workshops to both local startups and investors and then providing networking opportunities to the participants. The outcome is a more active private investment market. Private investments are encouraged by Innovation Norway´s match funding instrument where private investments are matched 50% with public funds.

This programme is an arena where investors and startups work together to learn and implement everything that is done in real life when investing or raising money. Based on experience and interest the two groups are connected for meetings. Participants share their experiences. Potential investors get a network, also becoming more visible in the ecosystem. Entrepreneurs obtain valuable practice and network. Although the focus of the programme lies on investment capacity building, both for entrepreneurs and investors, it has actually also contributed to generate deals.

Click here to find out more about this practice.

From the experiences in the Interreg Europe community, including the examples above, we can learn that investor networks, including business angel networks and venture capital (VC) syndicates, play a vital role in promoting and improving venture capital and equity investment in technology-based startups. These networks serve as platforms for pooling resources, sharing knowledge, and reducing risk, all of which help facilitate funding for early-stage and high-risk tech startups.

POLICY LEARNINGS

Overall, startup festivals and investor networks not only help technology-based startups access funding but also contribute to regional innovation, create high-value jobs, enhance industry-specific expertise, and attract global attention. By fostering entrepreneurship and innovation ecosystems, they lay the foundation for sustained economic development, ensuring that regions remain competitive and prosperous in the global economy.

Here's how the mentioned aspects of startup festivals and investor networks also benefit regions in terms of innovation and economic development:

1. Bridging Funding Gaps Between Early and Late Stages

By connecting startups with investors at various stages, startup festivals and investor networks help nurture local businesses, reducing the risk of promising startups leaving the region in search of funding elsewhere. As startups grow and succeed, they create jobs, increase local tax revenues, and attract further investment into the region.

This continuous flow of capital helps create a sustainable cycle of economic growth, driving regional development through the establishment of innovative companies that can become global players.

2. Fostering Investments in Specific Strategic Sectors

Targeted investments in strategic sectors like AI, clean energy, or biotech help regions develop expertise in high-growth industries. These sectors are often critical for the future economy and supporting them locally ensures that regions stay competitive on the global stage. This attracts both talent and additional capital, creating a high-tech ecosystem that boosts the overall economy, supports higher-skilled jobs, and leads to higher standards of living.

3. Fostering Entrepreneurial Ecosystems

Vibrant entrepreneurial ecosystems drive innovation by encouraging collaboration among startups, universities, investors, and corporations. Regions with strong ecosystems tend to attract more startups and capital, creating a ripple effect that stimulates further economic development. These ecosystems not only generate new companies but also foster innovation within existing firms. The cross-pollination of ideas and resources helps regions diversify their economies, increasing their resilience to economic downturns and making them more competitive internationally.

4. Providing Education and Investor Readiness

When startup festivals and networks provide education on investor readiness, it helps to build a more knowledgeable and capable entrepreneurial community. This leads to higher-quality startups, which in turn attract more investors to the region. As local entrepreneurs become better prepared to pitch to investors and manage growing companies, they contribute to a skilled workforce and leadership pool. The result is a stronger regional innovation capacity, where companies are better positioned to scale and succeed, driving long-term economic growth.

5. Raising Awareness and Attracting Media Attention

Media attention from startup festivals raises the profile of the region as an innovation hub, attracting international investors, corporate partners, and talent. Positive coverage showcases the region’s strengths in particular industries or technologies, encouraging further investment. A reputation as an innovation center can also boost tourism, education, and international collaborations, all of which contribute to the broader economic development of the region. This visibility helps regions compete globally, attracting entrepreneurs and investors who might otherwise focus on more well-known innovation hubs.

Looking ahead

The equity funding landscape for technology and deep-tech startups has transformed significantly, shaped by market dynamics and policy interventions. Here's an overview of the major trends from both a policy perspective and broader market trends:

Alignment of investment policies and funds with key policy goals

A key trend is the growing alignment of investment strategies with major policy goals, particularly in Europe, focusing on a s**marter, greener, and more social** future.

Investors are prioritizing **green tech, climate tech, and sustainability**, spurred by climate change concerns and policies like the European Green Deal. Sectors such as battery technology, carbon capture, and sustainable agriculture are attracting both venture capital and government funds. **AI and quantum computing** are also seeing dramatic increases in equity funding, with global governments heavily investing to stay competitive in these critical areas. Blended finance and **impact investing,** which combine private and public funding to address **global challenges like healthcare and climate change**, are gaining popularity. Policy-driven funds like the EU's Just Transition Fund promote social equity and sustainability.

Adapting to the specific needs of deep-tech startups and ecosystems

Deep-tech startups typically require longer gestation periods compared to traditional tech startups, due to the complex nature of their innovation and the time required to develop market-ready products. As a result, there's an increasing focus on **"patient capital"** from specialized venture funds that understand the unique timelines involved in deep tech. Governments are developing financial instruments aimed at supporting these **longer timelines.**

To foster deep-tech ecosystems, many governments are focused on retaining talent and intellectual property (IP) domestically. Venture investors and public funds are increasingly focusing on IP-rich startups, especially in fields like semiconductors, biotech, and quantum computing, where patents and proprietary knowledge are major barriers to entry.

Decentralization of innovation hubs

The decentralization of innovation hubs, driven by remote work and investor interest in emerging markets, is notable. Regions like Eastern Europe, Southeast Asia, and Africa are gaining more equity funding, while local ecosystems are supported by government incentives. The European Innovation Ecosystems initiative from the EU contributes to this trend.

Rise of alternative funding models

Equity crowdfunding platforms are increasingly being used by early-stage tech startups to raise capital from a wide range of investors. This democratizes access to investment but also introduces smaller, less sophisticated investors to high-risk ventures. Some startups, particularly in blockchain and Web3 sectors, are using tokenization models to raise equity by selling tokens or other blockchain-based assets that represent equity or future utility. Special Purpose Acquisition Companies (SPACs): SPACs have gained traction as an alternative to traditional IPOs for deep-tech startups. While the SPAC trend has cooled somewhat since its peak in 2021, it remains a viable option for later-stage tech companies to go public quickly, without the regulatory hurdles of a traditional IPO.

In summary, the equity funding landscape is increasingly defined by sustainability, strategic government-backed funding, patient capital, and decentralized innovation. There's a clear policy-driven focus on areas like AI, quantum computing, and green tech, reflecting the recognition of deep-tech startups as crucial drivers of long-term economic growth. The Interreg Europe Policy learning Platform will continue to follow the topic in its future activities.

Interreg Europe resources

Our experts provide a tailored set of resources, contacts, or in-depth analyses to help you find the answers you are looking for. Explore our services that can help you solve your regional policy challenges.

Interreg Europe Policy Learning Platform information

Event learnings

- Webinar recording: Setting up regional funds with the European Investment Fund
- Webinar recording: Entrepreneurship support: Incubator success factors
- Workshop recording: Scaling up European SMEs

Stories and articles

- Supporting deep tech innovations – the Austrian approach
- Voucher schemes: implementing innovation vouchers
- Voucher schemes: zooming in on innovation vouchers

Policy briefs

- Business incubation: from startup to scaleup
- Vouchers for the competitiveness of SMEs

Peer reviews and matchmaking

- New financial instruments to support development of enterprises in Usti Region
- The Platform helps Tartu set up a Green Deal accelerator

Interreg Europe Programme

Interreg Europe is an interregional cooperation programme co-financed by the European Union. With a budget of 379 million euros for 2021-2027, Interreg Europe helps local, regional and national governments across Europe to develop and deliver better policies through interregional cooperation projects and its Policy Learning Platform services. The programme promotes good practice sharing and policy learning among European regions in 36 countries – the 27 Member States, as well as Norway, Switzerland and the 7 EU candidate countries. Interreg Europe contributes to the EU cohesion policy together with the other European Territorial Cooperation programmes known as Interreg.

Interreg Europe Policy Learning Platform

The Policy Learning Platform is the second action of the Interreg Europe programme. It aims to boost EU-wide policy learning and builds on good practices related to regional development policies.

The Platform is a space where the European policy-making community can tap into the know-how of regional policy experts and peers. It offers information on a variety of topics via thematic publications, online and onsite events, and direct communication with a team of experts.

Interreg Europe Policy Learning Platform expert services

Our team of experts provide a set of services that can help you with regional policy challenges. Get in contact with our experts to discuss the possibilities:

Via the **policy helpdesk**, policymakers may submit their questions to receive a set of resources ranging from inspiring good practices from across Europe, policy briefs, webinar recordings, information about upcoming events, available European support and contacts of relevant people, as well as matchmaking recommendations and peer review opportunities.

A **matchmaking session** is a thematic discussion hosted and moderated by the Policy Learning Platform, designed around the policy needs and questions put forward by the requesting public authority or agency. It brings together peers from other European regions to present their experience and successes, to provide inspiration for overcoming regional challenges.

Peer reviews are the deepest and most intensive of the on-demand services, bringing together peers from a number of regions for a two-day work session, to examine the specific territorial and thematic context of the requesting region, discuss with stakeholders, and devise recommendations.

Discover more: www.interregeurope.eu/policylearning

Interreg Europe Policy Learning Platform

Les Arcuriales, Entrée D, 5e étage

45 rue de Tournai, 59000 Lille, France

Tel: +33 328 144 100

info@policylearning.eu

Follow us on social media:

#policylearning

www.interregeurope.eu

SMART GREEN CONNECTED SOCIAL CITIZENS GOVERNANCE