Building a Vibrant Business Angel Ecosystem in Europe

Recommendations for EU and National Policy Makers

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EXECUTIVE SUMMARY

The European Union's startup ecosystem stands at a critical juncture, facing both significant opportunities and formidable challenges. With over 30% of global startups originating from the EU, the region is a key innovation hub. However, many startups relocate during the scale-up phase due to limited funding, despite the EU being home to four of the G7 countries and having a robust economic base with over €10 trillion in savings. To maintain its competitive edge in a rapidly evolving global market, the EU must address key issues in early-stage investments, institutional funding, government procurement, regulatory barriers, and cross-border investments.

One of the primary challenges identified is the high risk associated with early-stage investments, which deters potential investors. Business Angels, who are typically the first professional private investors in startups, face significant risk-reward trade-offs. Public entities have a crucial role in mitigating these risks to encourage a broader spectrum of individuals to engage in angel investing. By implementing co-investment programs, reforming regulatory frameworks, and encouraging greater institutional involvement, the EU can reduce these risks and ensure a steady flow of capital into the startup ecosystem. Additionally, leveraging government procurement contracts and simplifying exit strategies will further bolster investor confidence and stimulate innovation across member states.
Institutional investment in early-stage ventures also presents a pressing issue. European institutional investors, such as pension funds, are far less inclined to invest in high-risk early-stage ventures compared to their counterparts in the United States and China. Addressing this challenge through targeted policies will significantly enhance the flow of capital into the sector, fostering a dynamic and competitive entrepreneurial environment within the EU.

Government procurement contracts represent another strategic opportunity. By leveraging these contracts, the EU can provide startups with reliable revenue streams, encouraging innovation and enhancing commercial viability, especially in critical sectors like defence and cybersecurity. Streamlined regulations and specialised IPO markets for startups can also enhance liquidity and investor confidence, making the EU an attractive destination for global investment.

Despite existing EU passporting rules, significant barriers still hinder cross-border fundraising. Harmonising regulations and offering fiscal incentives can stimulate cross-border investments, creating larger funding pools necessary for startup businesses to thrive.

This document should be considered a key resource in shaping EU policies in favour of a more unified and dynamic innovation environment. It provides insights and recommendations based on input from EBAN's pan-European community of active investors and founders. By incorporating the insights and recommendations outlined, EU and EU Member State policymakers can craft targeted strategies that address the most pressing challenges faced by startups and business angel investors. The proposed initiatives not only aim to enhance the EU's competitive edge but also ensure that Europe remains at the forefront of global innovation, driving economic growth and technological advancement across its Member States.

The paper's relevance becomes particularly significant when viewed in the context of Mario Draghi's report "The Future of European Competitiveness – A Competitiveness Strategy for Europe". Draghi's report emphasises the need for Europe to enhance its economic impact and technological leadership in a rapidly changing global market, focusing on innovation, investment, and the creation of a supportive regulatory environment. The challenges identified in this paper, such as Europe's limited early-stage funding and excessive regulatory barriers, align with Draghi's call for structural reforms that promote investment in high-growth sectors. By addressing funding and cross-border investment issues, this paper's recommendations directly contribute to enhancing the competitiveness of the European startup ecosystem. Furthermore, its emphasis on leveraging government procurement and regulatory harmonisation echoes Draghi's vision of a more integrated and innovation-friendly Europe. This is key for sustaining long-term growth and ensuring the EU remains a global leader in emerging technologies.
The paper also provides suggestions on how the EU institutions and member states can effectively implement and operationalise the recommendations mentioned in this paper.

SUMMARY OF KEY RECOMMENDATIONS

1. FACILITATING EXITS

- Support the creation of a pan-European IPO market for startups and small-cap companies
- Develop marketplaces for peer-to-peer share transactions post-investment

2. DEFINING BUSINESS ANGELS IN EU LEGISLATION

- Clarify the definition and criteria to be recognised as an Angel Investor across the EU
- Work with the industry stakeholders to define and accredit Business Angels, ensuring an efficient process.

3. IMPROVING CO-INVESTMENT PROGRAMMES AND INCENTIVES

- Expand EU funded co-investment programs to reduce risks for early-stage investors, with co-investing going beyond the pari-passu principle.
- Encourage the European Investment Fund (EIF) to increase its participation in venture capital for startups.

4. REFORMING AIFM DIRECTIVE TO ACKNOWLEDGE BUSINESS ANGEL FUNDS

- Reform the Alternative Investment Fund Managers (AIFM) Directive to more clearly exempt Angel Funds

SUMMARY OF KEY RECOMMENDATIONS

5. ENCOURAGING GOVERNMENT PROCUREMENT CONTRACTS WITH STARTUPS

- Implement EU-wide guidelines to facilitate access to government procurement contracts for startups.

6. FACILITATING CROSS-BORDER INVESTMENT

- Remove barriers to cross-border investment processes
- Harmonise tax treatment for cross-border investments in the EU

7. ENCOURAGING INSTITUTIONAL INVESTMENT IN EARLY-STAGE VENTURES

- Promote the involvement of pension funds and insurance companies in venture capital markets through EU-level incentives and policy adjustments.

FACILITATING EXITS

KEY RECOMMENDATIONS:

- **Establish IPO markets for startups** and small-cap companies.
- **Develop marketplaces through crowdfunding platforms** for peer-to-peer secondary sale transactions.
- I**mplement EU-funded programs** like venture client and venture builder initiatives.
- **Offer tax incentives for M&A activities** related to startups to encourage corporate acquisitions.

Facilitating Exits is crucial for providing liquidity to investors all while fostering growth within the startup ecosystem. By creating more favourable conditions for investors to sell their shares and monetise their investments, governments can unlock private capital which can be re-invested in the next startups that are born. To address the challenges surrounding exits in Europe, policymakers should consider the following strategies:

ESTABLISHING IPO AND SECONDARY MARKETS FOR INVESTORS TO SELL THEIR SHARES

Establishing IPO markets specifically tailored for startups and small-cap companies is crucial to overcoming the financing challenges inherent in traditional IPO routes. These specialised markets, as seen in successful initiatives in countries such as Sweden, the UK and Italy, offer startups vital access to capital by providing a platform for them to go public and raise funds from a broader investor base. The Jeffreys "Global Secondary Market Review" indicates that the total volume for secondary markets is over $112b and still growing. Unlike traditional IPOs, which can be prohibitively expensive and time-consuming for startups, these tailored IPO markets streamline the process, making it more accessible for early-stage entities to access the capital they need to grow and scale their operations.

Moreover, crowdfunding platforms offer an innovative solution for providing secondary exit options for investors. These platforms serve as a marketplace where angel investors

[1] Jefferies-Global-Secondary-Market-Review-July-2024.pdf

can sell their startup shares in peer-to-peer transactions. Key examples of this to be emulated can be seen in the UK with Seedr and CrowdCube, which took advantage of the UK's Financial Conduct Authority Regulations to ensure investor protection, and innovated in providing not only the option for initial investment but also allowing a secondary market for investors to trade shares post-investment. By enabling investors to liquidate their holdings in startups, crowdfunding platforms provide liquidity and flexibility, allowing investors to reinvest their proceeds into new startup ventures or diversify their portfolios. This not only benefits individual investors by providing them with an avenue to realise returns on their investments but also contributes to the overall liquidity and vibrancy of the startup ecosystem. Funderbeam in Estonia is also a strong example to be emulated, as their cross-border functionality which takes advantage of Estonia's digital-friendly regulations and allows it to serve a global market

LINKING BIG BUSINESSES AND STARTUPS:

The disparity in M&A activity between Europe and other parts of the world is a significant challenge. To encourage more trade sales, policymakers can explore initiatives aimed at promoting startup-corporate collaborations. This can include EU-funded programs and projects designed to facilitate partnerships between startups and established corporations. Examples of such initiatives include venture client programs and venture builder programs, which enable corporates to engage with startups as strategic partners or customers, thereby fostering collaboration and potential acquisition opportunities. Efforts should also be made to encourage investment in innovative ideas and startups by major European corporations to ensure their long-term longevity. This could involve tying state support and subsidies to investments in startups, thereby both stimulating startup growth and investment, as well as the adoption of innovative solutions by EU corporations that are steadily losing their edge to rapidly growing competitors across the world.

By addressing the challenges surrounding trade sales and implementing targeted initiatives to promote startup-corporate collaborations, policymakers can create a more favourable environment for M&A activity in Europe. Additionally, introducing tax incentives for M&A can further incentivise corporates to engage with startups, unlock synergies, and drive economic growth through innovation and entrepreneurship.

CASE STUDIES:

- Nasdaq First North and Spotlight Stock Market - Sweden
- Funderbeam - Estonia
- Republic Europe (formerly Seedrs) and Crowdcube - UK

KEY ACTIONS:

- The European Commission can encourage the development of specialised IPO markets for startups through the Capital Markets Union (CMU) initiative by recommending guidelines for member states to adopt. Existing stock exchanges, like Euronext or Deutsche Börse, could create dedicated startup IPO platforms with simplified listing requirements.
- The European Securities and Markets Authority (ESMA) could issue guidelines allowing crowdfunding platforms to facilitate secondary share trading. These platforms should be integrated into the European Crowdfunding Service Providers Regulation (ECSPR) framework to ensure cross-border functionality and investor protection.
- The European Commission could create a funding stream under Horizon Europe or the European Innovation Council (EIC) where state subsidies for large corporations could be tied to investments in startups, encouraging corporate investment in innovation.
- Offer tax incentives for M&A activities related to startups to encourage corporate acquisitions.
- The European Commission could propose harmonised M&A tax relief measures as part of the Capital Markets Union (CMU) or within national tax policy frameworks, encouraging member states to adopt incentives for startup acquisitions

DEFINING BUSINESS ANGELS IN EU LEGISLATION

KEY RECOMMENDATIONS:

- **Standardise the definition of Business Angels across the EU** to include private investors who provide seed and early-stage capital, along with mentoring and networking support.
- **Work with the ecosystem to establish the definition and the accreditation of Business Angels,** ensuring an efficient process based on industry standards.
- **Push for legislative and tax exemptions for accredited business angels** in cross-border investments to encourage a more fluid and cohesive investment environment across member states.

ESTABLISHING A CLEAR DEFINITION OF BUSINESS ANGELS IN EU LEGISLATION:

A crucial step toward enhancing cross-border investments and fostering a robust startup ecosystem in Europe is the formal recognition of "Business Angels" (BAs) in EU commercial and tax legislation. Currently, the absence of a standardised definition creates ambiguity, leading to inconsistent treatment across member states and complicating cross-border investments. By creating a legitimate and standardised definition, the EU can streamline tax and regulatory frameworks, making it also easier for angel investors to operate across borders. We encourage the EU to work with industry stakeholders to establish the definition and accreditation processes to formally recognise business angel investors. EBAN offers its support to the EU to commence working on this in the near future.

ACCREDITATION OF BUSINESS ANGELS:

In the U.S., to qualify as an accredited investor, individuals must prove financial solidity and intellectual knowledge. However, in the EU context, it is advisable to delegate the responsibility of accrediting individuals as business angels to entities such as EBAN, Business Angel Networks (BANs) and angel federations active in the local markets. This approach ensures that the accreditation process remains efficient and responsive to the needs of the investment community, avoiding potential delays that could arise from government intervention. Accreditation of Business Angels should be immediately recognized among all the EU Member States.

With a standardised definition of Business Angels, the EU can push for exemptions and special provisions in tax and investment regulations, facilitating easier cross-border operations. By recognizing accredited business angels uniformly across all member states, the EU can enable these investors to take full advantage of fiscal incentives and benefits, irrespective of where they are domiciled within the Union. This would significantly reduce barriers to cross-border investments and contribute to a more integrated and dynamic European investment ecosystem.

CASE STUDIES:

- SEC Investor Accreditation - USA

KEY ACTIONS:

- The EU should introduce a directive or regulation embedded in the Capital Markets Union (CMU) framework that provides a clear and standardised definition of Business Angels within its commercial and tax legislation.

- The EU should work with industry stakeholders in defining and then accrediting business angel investors, granting a status recognized at EU level.

IMPROVING CO-INVESTMENT PROGRAMMES AND INCENTIVES:

KEY RECOMMENDATIONS:

- **Establish co-investment programs** dedicated to business angels, where public funds co-invest with private capital to lower risk, going beyond pari-passu principles.
- **Allocate more budget to co-investment programmes** and have them prioritise equity co-investment, rather than loans, while going beyond pari-passu principles.
- **Encourage member states to introduce fiscal incentives** to promote enterprise investment.

Business Angels are typically the first professional private investors in startup businesses, making up roughly 50% of the early-stage venture capital investment market, according to the 2023 EBAN Stats Compendium [2]. These investors are able to accept the high risk-reward trade-off inherent in this asset class. However, public entities can do much more to encourage risk-taking and attract more individuals to become angel investors. Leading academics like Colin Mason, who have extensively studied this field, also emphasise the critical role that supportive public policies play in expanding the angel investment market [3].

INTRODUCE AND DEVELOP CO-INVESTMENT SCHEMES WITH BUSINESS ANGELS

Public-private investment schemes are crucial for fostering a dynamic startup ecosystem in Europe. Co-investment schemes, where public funds match private capital, reduce

[2] EBAN Annual Statistics Compendium for 2022

[3] Mason, C., & Botelho, T. (2022). "Public Policy and Angel Investing: The Impact of Recent Developments on Market Dynamics." Journal of Business Venturing Insights, 17, 100324.

investor risk and encourage greater participation in early-stage ventures. Leveraging national and EU-level funding, such as the InvestEU initiative, can establish these co-investment funds. Successful models, such as those in Denmark, Finland, and Lithuania, demonstrate the effectiveness of mobilising private capital and fostering collaboration with business angels.

The Strategic Technology Europe Project (STEP) and InvestEU can further boost investment in strategic markets, reducing the EU's dependency on third countries for critical technologies. By providing guarantees and co-investments, these public instruments can de-risk private investment in critical technologies, encouraging rapid development and innovation. Additionally, the Covid recovery fund and regional development funds can be used to bolster tech startups by creating co-investment incentives and providing financial guarantees against potential losses, such as project failure or market downturns. This makes higher-risk investments more attractive to business angels and other early-stage investors like VCs. Public programmes should be encouraged to co-invest with angel syndicates and funds composed of three or more angel investors, co-investing at a fund level and not on a deal by deal level. Particularly for strategic technological areas, the EU funded co-investment programmes should go beyond the pari-passu principle, and foresee asymmetric exits as measures to incentivise more private investment.

Funding these public-private schemes at both the EU and member state levels is essential for ensuring sustained growth and competitiveness in Europe's startup ecosystem. Notably, during the Covid-19 pandemic, schemes that included loan matching at a 3:1 ratio proved particularly successful in securing increased equity and loans to early-stage ventures. However, with normalised interest rates and based on the experiences from the Covid scheme, future programs should focus on equity rather than loans to better support early-stage startups.

Moreover, the combined entity EIFO (encompassing Vækstfonden, Export Credit, and DGIF), modelled after BPI in France, can play a pivotal role in this context. The experience of EIFO with Business Angel matching schemes during the pandemic underscores the importance of structuring co-investment programs to adapt to current market conditions and investor needs. By refining these programs to prioritise equity matching, the EU can create a more resilient and attractive investment environment for early-stage tech startups.

To further bolster Europe's startup ecosystem, it is essential to encourage the European Investment Fund (EIF) to increase its participation in venture capital for startups. The EIF plays a significant role in supporting SMEs and startups across Europe by providing equity investments and guarantees that stimulate private sector involvement. By scaling up its investment activities, particularly in high-growth and innovative sectors, the EIF can provide much-needed capital to early-stage ventures that may struggle to secure sufficient funding from traditional sources. This enhanced involvement would not only help bridge the funding gap but also signal strong support from the EU for entrepreneurial innovation. Increased EIF participation could be structured through targeted programs that align with strategic priorities, such as advancing digital and green technologies, thereby reinforcing the EU's commitment to fostering a vibrant and competitive startup landscape. Pari-passu principles should no longer be conditions within EU funded early stage co-investment programmes, as they do not go far enough in providing incentives to private investors. More favourable terms would help crowd in the private sector and ultimately increase the impact of such co-investment programmes.

The EU should also incentivise Member states to adopt tax incentive schemes such as the UK's Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS), which have significantly driven investment into innovative companies by offering substantial tax relief to investors. Since its inception, the EIS alone has raised over £24 billion for high-growth businesses, with more than 66,000 companies benefitting from the programme. SEIS, which focuses on earlier-stage startups, has also facilitated investment in over 15,000 companies, raising around £1.4 billion [4]. These schemes reduce the financial risk for investors by offering income tax relief, capital gains tax exemptions, and loss relief on investments, making early-stage ventures more attractive. Considering the combined GDP of the largest EU economies—Germany, France, Italy, Spain, and the Netherlands, which collectively represent over €11 trillion—if these nations adopted similar tax incentives, early-stage investment could see an increase of up to €50–€60 billion over a comparable period. This estimate is based on the relative size of these economies compared to the UK and their existing venture capital activity. This influx of capital would strengthen innovation, create jobs, and enhance competitiveness, especially in strategic sectors like tech and green industries.

CASE STUDIES:

- Vækstfonden / EIFO - Denmark
- Finnish Co-investment Fund - Finland
- Coinvest Fund - Lithuania
- PRICAF (Public Regulatory Investment Company) regime - Belgium
- INVEST Grant - Germany
- EIS/SEIS Schemes - United Kingdom

[4] Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief statistics: 2024 - GOV.UK (www.gov.uk)

KEY ACTIONS:

- The European Commission could propose in its next Multiannual Financial Framework (MFF) review to amend the InvestEU and Strategic Technology Europe Project (STEP) frameworks to include dedicated co-investment funds that match private capital at a 1:1 or 3:1 ratio. Allocate a portion of the EU's Horizon Europe and Recovery and Resilience Facility (RRF) budgets to co-investment partnerships with business angel networks (BANs) at the national and EU levels.

- Direct the EIF to revise its guidelines for funding initiatives like the European Scale-Up Action for Risk Capital to emphasize equity rather than debt, which requires no new legislation but rather an internal strategic shift.

- Establish an EU directive or recommendation that incentivizes member states to adopt tax relief schemes. The European Commission can develop this within the Capital Markets Union (CMU) framework, presenting it to the Economic and Financial Affairs Council (ECOFIN), encouraging member states to harmonize tax incentives for angel investors across the EU.

REFORMING THE AIFM DIRECTIVE TO ACKNOWLEDGE BUSINESS ANGEL FUNDS

KEY RECOMMENDATIONS:

- **Grant EU Passporting rights to angel fund structures** to facilitate pooling of investors across EU Member States.
- **Exempt Angel Side-Car Fund structures from the Alternative Investment Fund Managers (AIFM) Directive** when the majority of the LPs are accredited investors**.**
- **Establish clear guidelines and definitions for Angel Syndicates** and frameworks for their establishment.

Addressing regulatory challenges is key to fostering a conducive environment for investment and entrepreneurial activity. To tackle regulatory issues hindering SMEs and individual investors, the following strategies should be considered:

REFORMING FINANCIAL REGULATIONS TO SUPPORT STARTUPS AND ANGEL INVESTMENTS

Exemptions for angel fund structures under the Alternative Investment Fund Managers (AIFM) Directive are crucial to encourage greater participation from individual investors. Angel fund structures, which pool business angels as co-investors rather than providing fund management services to retail investors, face challenges under the AIFMD, particularly when such structures include investors residing in multiple Member States. Most syndicates and angel networks operate under an exemption from the AIFMD because their management is collectively undertaken by all investors within a Special Purpose Vehicle (SPV). This co-management approach means that angel funds do not qualify as collective investment undertakings under the AIFMD, regardless of the number of investors or the capital raised. Investors in the angel funds must be consulted for major decisions, including investment and divestment of assets. Whereas AIFMD licensing is exempted for angel funds that fundraise from business angels residing in the jurisdiction of the funds' incorporation, EU passporting rights to fundraise from angel investors residing in other EU Member States should be automatically granted.

Furthermore, angel fund structures such as sidecar funds—where angels pool resources that are co-invested alongside other business angel investors, but do not involve these LP investors in all decision-making processes—are also impacted by the AIFMD. In angel sidecar fund structures, decision-making is typically delegated to a General Partner (GP) team, distinguishing them from purely co-managed LP structures. For these sidecar funds, where accredited investors like business angels make up the majority of Limited Partners (LPs), the requirement for fund licences should be exempted. This would foster greater investment from communities of business angel investors by reducing regulatory burdens that hinder co-investment.

Additionally, EU Member States need to clarify and simplify regulations to incentivise angel investors to invest together through syndicates and angel funds. By streamlining and standardising regulations, Member States can create a more attractive environment for syndication, making it easier for angels to pool their resources and invest collaboratively. This not only boosts local innovation ecosystems but also positions these countries as favourable destinations for international capital seeking efficient and supportive investment structures.

KEY ACTIONS:

- The European Commission can propose an amendment or exemption within the AIFMD framework through a delegated act, to automatically grant EU-wide passporting rights to angel funds that primarily involve business angels as co-investors.
- The European Securities and Markets Authority (ESMA) can issue guidelines to member states to exempt angel sidecar funds where accredited investors, like business angels, make up the majority of Limited Partners (LPs) from the AIFMD's licensing requirements.
- The European Commission's DG FISMA could issue a harmonised regulatory framework for angel syndicates through the Capital Markets Union (CMU) initiative to make it easier for syndicates to pool resources across borders.

ENCOURAGING GOVERNMENT PROCUREMENT CONTRACTS WITH STARTUPS

KEY RECOMMENDATIONS:

- **Establish programmes to allocate more government contracts to startups and scaleups.**
- **Establish programmes for startups developing dual-use technologies.**

In addition to encouraging institutional investment, the EU should adopt government contracting practices similar to those in the USA to promote the development of military and dual-use technologies. The USA's Small Business Innovation Research (SBIR) [5] and Small Business Technology Transfer (STTR) [6] programs serve as solid models to be replicated. These programs encourage domestic SMEs to engage in R&D with the potential for commercialisation. Similarly, scalable contracts established through the Defence Innovation Unit accelerate the adoption of key commercial technologies throughout the military and grow the national security innovation base. The return on investment for government procurement contracting is also huge with the USA Department of Defence estimating a 22x return on funds used (see SBIR/STTR Overview Graphic) [7].

Governments should incentivise the awarding of contracts to startups through the inclusion of evaluation criteria that favour applications for government contracts from

[5] Small Business Innovation Research (SBIR)

[6] Defense SBIR / STTR Program Overview

[7] Defense SBIR/STTR - SBIR / STTR Program Overview (defensesbirsttr.mil)

startups or corporate organisations that are working directly with startups. Government contracts can significantly contribute to startup growth by providing a steady revenue stream, better than direct grants. By paying for prototypes and purchasing products/services from startups, governments can stimulate innovation and commercial viability. Implementing such programs in the EU would provide early-stage ventures with practical opportunities to prove their technologies, secure funding, and gain traction in the market. This would also have the secondary impact of increasing domestic EU innovation development in the defence sector, a key priority during such turbulent times.

CASE STUDIES:

- SBIR & STTR Programs - USA
- Defence Innovation Unit - USA

KEY ACTIONS:

- The European Commission can propose for startups developing dual-use technologies within the Capital Markets Union (CMU) initiative or encourage member states to integrate such incentives into their national tax policies to drive investment.

FACILITATING CROSS-BORDER INVESTMENT

KEY RECOMMENDATIONS:

- **Ensure member states offer fiscal incentives** to both domestic and foreign angel investors.
- **Allow domestic angels to receive benefits for investing** in startups outside their home country.
- **Provide grants to cover legal and administrative costs of cross-border investments.**

A major issue in the European Innovation ecosystem is the lack of large pools of funding to invest in later stage companies. This leads to many of Europe's most successful and innovative companies moving to countries such as the USA and China in search of the investments they need to grow. One element of this is the fragmented nature of the EU funding landscape with limited cross-border investment. Despite the existing EU passporting rules, angel investors encounter significant barriers in cross-border fundraising, such as cumulative fund licensing fees and divergences in regulatory implementation, which diminish the positive impact of these efforts. To address these challenges, the EU should map out and tackle the legislative and monetary barriers that limit efficient cross-border operations.

One impactful change would be to ensure that member states that provide fiscal incentives or benefits to domestic angel investors, should make those benefits available to foreign angels residing in other Member States. The EU can play a key role in the recognition of fiscal incentives between Member States, allowing angel investors to choose the most favourable tax rate between the EU country of residence and the EU country where their investment is made. This would serve to significantly stimulate cross-border investment and allow for significantly more cross-border co-investment partnerships, while also strengthening the principles of the single market. Similarly, the introduction of the 28th Regime policy could also serve to equalise the playing field, allowing investors to choose between the tax system of member states or a n EU wide one depending on which is more favourable. This would be key to developing larger pools of funding to invest in later stage companies and avoid innovation from seeking investment outside of Europe. At the same time, it evens the playing field for investors across Europe, allowing for a greater transfer of knowledge and funds across borders and helping to develop low investment regions. In addition to this, an initiative to automatically grant EU passporting rights to fundraise from angel investors residing in other EU Member States as previously mentioned would also be of benefit.

Furthermore, the EU should encourage more cross border syndication among angel networks, through grant funded projects like 4Angels. This approach allows angel investors from different countries to pool resources and co-invest in startups, thereby increasing available capital and providing access to diverse expertise and networks. Grant-funded projects can help cover costs associated with cross-border investments, such as legal and administrative fees, and facilitate partnerships between angel networks. Connecting investors with local experts who understand regional ecosystems and regulatory processes ensures that international investments are more efficient and effective.

CASE STUDIES:

- Economic Investor Talent Passport - France
- 4Angels - Estonia, Poland & Slovenia

KEY ACTIONS:

- The EU should introduce Directives that amend existing tax legislation through the Capital Markets Union (CMU) policies, that encourage member states to mutually recognize tax benefits for foreign investors and ensure that fiscal incentives for angel investors in one member state are extended to foreign angels from other EU countries.

ENCOURAGING INSTITUTIONAL INVESTMENT IN EARLY-STAGE VENTURES

KEY RECOMMENDATIONS:

- **Offer pension funds EU funded capped return and capped risk incentives** to become Limited Partner (LP) investors in venture capital funds.
- **Expand the European Venture Capital Funds (EuVECA) Regulation** and reduce restrictions on VC investments.
- **Provide simpler and clearer guidelines** on how pension funds can invest in VC while managing risk.

A significant challenge in the EU's tech startup ecosystem is the lack of institutional investors in the early-stage arena. Institutional investors, such as pension funds, in the EU typically shy away from early-stage investments given the high-risk profile of the venture capital asset class. There is a paradox between the huge amounts of assets under management (AUM) in pension funds in the EU on one side and the lack of institutional capital in the early-stage sector on the other side. This lack of allocation is based on several factors: i) perceived poor risk-reward ratio, ii) track record of venture funds, iii) too many funds that are small in size and focused on seed rounds and series A only, due to their limited size (AUM); not enough funds with large enough AUM to allow focus on growth capital and later stage, leading to inefficient capital allocation, and iv) lack of competence in investing in early-stage entities [8].

To address this, the EU should encourage large institutional investors, in particular pension funds, to become Limited Partner (LP) investors in VC funds through the introduction of EU capped return and capped risk incentives. In addition, at the dismantling of such VC funds, the first ones to be paid out are the pension funds based on the capital provided, with an interest rate based on a hurdle rate.

[8] OECD (2022), Long-term investing of large pension funds and public pension reserve funds 2022, OECD Publishing, Paris, https://doi.org/10.1787/809eff56-en.

Additionally, policies should be implemented to ensure a certain portion of AUM is allocated to early-stage ventures rather than only low-risk established ventures. US pension funds currently allocate 11% of their portfolios to private equity, venture capital, and infrastructure investments [9], hugely supporting the development of the local ecosystem. This is due to several factors, including less strict regulation on pension fund investment risk tolerance, as well as Capital Gains Tax policies that favour longer-term investments. In contrast, in 2022 the EU pension funds invested only 4.3%, of which only 0.024% of their total AUM (based on reported assets standing at 3.4 trillion) [10] was dedicated to venture capital funds. Increasing the pension fund allocation in VC and business angel funds up to 1% would increase investment into the sector, by over €33 billion [11]. It is essential to diversify investment focus beyond late-stage ventures and big-ticket items to ensure the supply of new ventures is not restricted by inadequate funding, and to help develop a vibrant and vibrant business angel ecosystem in Europe. To do this, the EU should expand the European Venture Capital Funds (EuVECA) Regulation to provide additional incentives for pension funds to co-invest with early-stage private investors such as business angels. This should include enhanced tax benefits, simplified compliance processes, and more robust support for fund managers to make their offerings more attractive to institutional investors. It should also include relaxing restrictions on high-risk investments and provide clearer guidelines on how pension funds can invest in VC while managing risk.

CASE STUDIES:

- Tibi Initiative - France
- ESCALAR - EU

KEY ACTIONS:

- Introduce EU funded capped return and capped risk incentives for pension funds to become Limited Partner (LP) investors in venture capital funds.. This could be managed through the European Investment Fund (EIF) to provide a safety net for pension funds.
- Amend pension fund regulations at the EU level to require pension funds to allocate a portion of their Assets Under Management (AUM) to early-stage ventures (at least 1%). This could be supported through European Venture Capital Funds (EuVECA) Regulation reforms

[9] State of the European Tech report 2023 – Atomico
[10] State of the European Tech report 2023 – Atomico
[11] *Forward 2024 – 2029: Our priorities for a more competitive European Union | Invest Europe*

CONCLUSIONS

In conclusion, building a vibrant angel and startup ecosystem in Europe is not just strategically important, but an economic necessity in the wake of intensifying global competition. The recommendations outlined in this paper offer expert driven advice from active EU-based angel investors for transforming the European Union into a powerhouse of innovation, capable of retaining its technology and scaling it to global leadership.

By implementing targeted co-investment schemes, encouraging institutional investment, leveraging government procurement contracts, and reforming regulatory frameworks, the EU can significantly de-risk early-stage investments and attract the capital necessary to fuel its startup ecosystem. Facilitating exits and enhancing cross-border investment are also crucial to ensure liquidity, foster investor confidence, and create larger, more resilient pools of capital that can sustain growth from seed stages to global market leaders.

The impact of these changes extends beyond the economic realm. A thriving investment ecosystem will not only bolster Europe's competitive edge but also drive technological advancements that it can address some of the most pressing challenges of our time, from climate change to cybersecurity. As the EU navigates this critical juncture, the adoption of these policies will determine its capacity to innovate, grow, and maintain its place as a leader in the technology and entrepreneurship landscape.

In an era where the global innovation race is accelerating, Europe cannot afford complacency. The proposed measures are not just policy recommendations; they are a call to action. If the EU is to realise its full potential, it must adopt reforms with urgency and ambition. We wholeheartedly support the reduction of barriers to investment in Europe and initiatives such as the formation of the 28th Regime. By shaping such policies on real needs expressed by front-line investors and founders, the EU can leverage its huge wealth of experts to full advantage.

THANK YOU

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