

Trends in cross-border venture capital investments in Germany and Europe

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The financing of start-ups has become increasingly international ever since the end of the 1990s. Recent data shows that the European venture capital (VC) market is now internationally integrated. Between 2020 and 2024, around 60% of the funds of European start-ups came from investors domiciled outside the country. The non-European capital providers most important for European start-ups are from the US, home to the world's largest VC market.

Foreign investors have a particularly strong interest in German start-ups, which provides the German ecosystem not only with capital but also with important access to networks and expertise. Nearly three quarters of start-ups in Germany received funding from abroad. Conversely, German VC investors are internationally diversified, as is customary in the market. They invest a good 60% of their funds outside Germany, with foreign investment within Europe making up 23 percentage points of this.

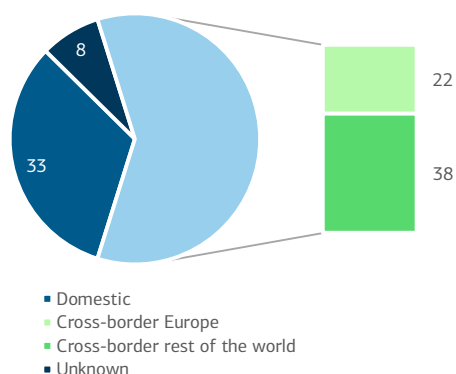
Overall, VC investors outside Germany invested an estimated EUR 37 billion in German start-ups between 2020 and 2024. At the same time, German VC investors invested some EUR 21 billion abroad. That makes the German VC ecosystem, as well as the entire European one, a net VC importer. Cross-border finance enables start-ups in Germany to raise more capital for innovation and growth than the activity of the local VC sector

itself would allow them to do. The fact that venture capital flows into the German ecosystem are higher in volume compared with the rest of Europe is an expression of the growth potential and returns which international investors expect from German start-ups. Overall, the integration of national VC markets leads to efficiency gains in the allocation of venture capital which benefited German start-ups in particular. At the same time, however, the high capital inflows into the German VC ecosystem are a double-edged sword. They generate a high dependence on foreign capital compared with the rest of Europe which can lead to increased volatility in the supply of finance for domestic start-ups in times of market uncertainty. Furthermore, the participation of foreign investors can increase the risk that start-ups and talent leave the country. In addition, the current geopolitical situation and protectionist trends could cause a slowdown in international financing activities.

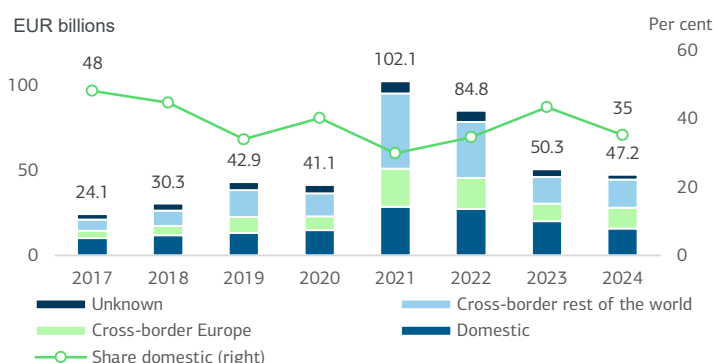
The relatively high importance of investment from abroad could suggest that the German VC ecosystem should become less dependent on the supply of foreign capital. However, this should be achieved by strengthening the domestic supply of funding on a sustained basis without limiting valuable cross-border financing activities. After all, the benefits of cross-border financing activities are of special importance, particularly for VC ecosystems such as the German one which have yet to evolve compared with the international benchmarks in the US and UK.

Figure 1: Around 60% of VC investments in European start-ups are cross-border financing operations

Percentages of VC investments (deal volume) in European start-ups by investor country of origin (2020–2024)



Annual VC investments in European start-ups by investor country of origin



Source: Dealroom.co, KfW Research

The internationalisation of venture capital

Innovative start-ups generate competition and open up access to new markets, provide an important contribution to the transformation of the economy and create future-oriented jobs. Start-ups play a significant role in the further development and commercialisation of leading-edge technologies from artificial intelligence to quantum computing and space travel. However, despite the high innovation and growth potential of these enterprises, there is much uncertainty around their future success. That makes funding their growth ambitions particularly challenging. After all, it is difficult for external parties to assess the risks and potential returns of novel technologies and business models and information on the profitability of relevant projects is asymmetrically distributed between businesses and potential capital providers.

Today, specialised venture capital investors play a crucial role in the financing of start-ups.¹ They acquire shares in these enterprises and aim to sell them (exit) at a profit after the businesses have grown successfully over a number of years. In doing so, VC investors take different measures in order to manage the comparatively high risk of their financing activities. As a rule, they themselves possess a profound knowledge of the technology, market and sector and build on comprehensive screening and thorough due diligence in selecting their target businesses. Besides, they finance start-ups only in stages of successive financing rounds between which they monitor the development of the businesses and assess whether additional capital should be provided or an exit from the investment should be considered. Multiple investors usually get together in a financing round of a start-up as syndication partners. Finally, they often support their portfolio companies by joining their management and give them access to networks ('smart money').² This principle of VC financing originated in the US, where it developed alongside the semiconductor industry from the 1950s.³ The US continues to have the largest VC market in the world. VC markets in other economies are young by comparison and only began to grow from the 1990s: first in the United Kingdom, Western Europe and some parts of Asia (Japan, Singapore, Taiwan, Hong Kong) and later in Eastern Europe and India. In the recent past, VC experienced strong growth particularly in China.⁴ National VC markets around the world are therefore in very different stages of development.

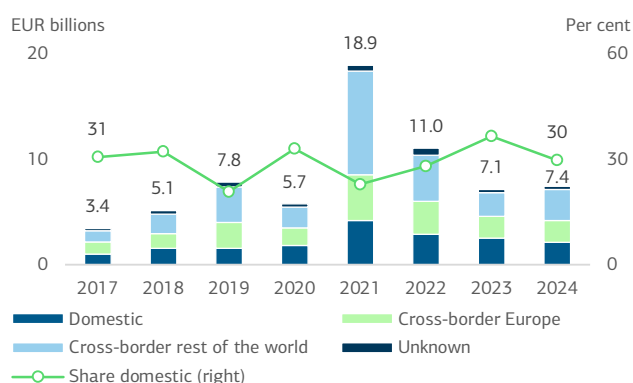
The need to manage the risk incurred with the financing operation by closely monitoring and maintaining a close relationship with the portfolio companies led to the belief in the early stages of the VC market that the VC financing operation required geographic proximity between the investor and the start-up.^{5,6} Prior to the 1990s, cross-border VC investments were the exception.⁷ Over time, however, new modes of communication and information in the course of digitalisation, generally closer integration of global markets and growing competition among investors in the established US VC market have led to increasing internationalisation of venture capital.⁸ Investors have increasingly seized opportunities to generate returns in new markets and the advantages of a broader regional diversification of their investments.

According to data from the information provider Dealroom.co, it is estimated that between 2020 and 2024 around 60% of the funds raised by European start-ups were provided by VC investors headquartered in a country other than the business they financed (Figure 1, left). More than one fifth of all funds invested in European start-ups were cross-border investments within Europe. Investors headquartered outside Europe accounted for 38% of VC investments in European start-ups. Domestic investments by VC investors and start-ups headquartered in the same country made up only one third of funds.

The significance of cross-border VC investments over the past years shows that the global VC market is less fragmented than is often assumed. Since 2019, however, no steady trend towards further international integration in the European VC market can be observed. Although the share of foreign funds for European start-ups increased from 52 to 65% between 2017 and 2024 (Figure 1), in some years it also decreased again, for example in the pandemic year 2020. In 2021, the global VC market then experienced a boom, with the VC deal volume in Europe surging from EUR 41 billion in the previous year to EUR 102 billion, accompanied by a stronger participation of foreign investments. This was followed by a cooling of the VC market in 2022 as a result of the cycle of global interest rate increases. During this time, VC investors shifted their focus more strongly to domestic investments, which reduced the importance of cross-border financing operations. A similar development could also be observed in Germany, where the share of foreign investors also fell in the years 2020, 2022 and 2023. But unlike the European market overall, the share of domestic investments in Germany was below 40% already before 2020 (Figure 2). That is one reason why there was no apparent increase in the share of foreign investors in Germany during the period of observation.

Figure 2: Cross-border VC investments are of great importance in Germany as well

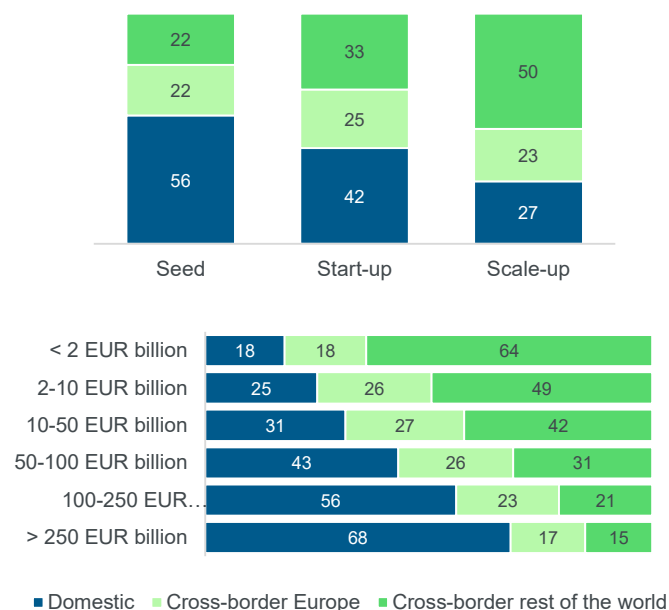
Annual VC investments in German start-ups by investor country of origin



Source: Dealroom.co, KfW Research

Figure 3: Foreign VC investments in European start-ups are most relevant for large financing rounds in the growth segment

Percentages of VC finance in Europe 2020–2024 by origin of funds



Source: Dealroom.co, KfW Research

Cross-border VC investments in Europe have the most important role to play in the realisation of financing rounds in the scale-up segment (from Series C rounds onwards). Whereas 56 and 42% of the funds invested in seed and start-up phase in Europe went to domestic investments, the scale-up phase received only 27% (Figure 3).

During the scale-up phase, businesses often require financial resources in order to speed up their growth. Regional VC markets in Europe are rarely able to generate such large-volume financing rounds on their own. Financing large sums requires sufficiently large VC funds that have a fund volume large enough for them to be able to undertake enough individual investments to ensure that their portfolios are adequately diversified. As financing rounds are typically accompanied by a consortium of investors, a sufficient number of such funds is also required. The individual VC markets in Europe often do not have enough VC investors of adequate size to secure purely domestic growth financing transactions. Furthermore, the European VC market is generally reliant on investors from non-European countries for very large financing rounds. In financing rounds for European start-ups over EUR 250 million, more than half the funds came from outside Europe. The greater weight of foreign investors in later financing rounds is also due to the fact that they have particular difficulties in assessing young enterprises in early stages because of their geographical distance to the market. The information deficits regarding business performance and growth potential are reduced in later rounds, which makes investments from abroad easier in these phases.

Advantages and disadvantages of cross-border VC investments

In theory, the integration of national VC markets provides efficiency gains. Investors share risks through an internationally diversified portfolio and improve their returns.⁹ Free, cross-border capital flows lead to investments in innovations in areas

where they generate highest returns and to a reduction in regional valuation differentials of start-ups (adjustment of prices of assets with the same risk). This appears to be advantageous particularly from a European perspective since the valuation level is traditionally higher in the US than in Europe as start-ups can obtain more capital there for the issuance of shares. Not least, financial integration also gives market participants access to a larger and more liquid capital market.

In practice, however, financial integration and risk sharing provide not only advantages. In fact, cross-border financing transactions can both harm and benefit local VC ecosystems. The benefits and drawbacks of international VC investments vary from the point of view of start-ups and VC investors or with respect to the sustainable development of a strong local VC ecosystem (Table 1).

The additional supply of capital from foreign investors gives domestic companies the opportunity to realise funding rounds with a higher probability or a more favourable valuation. Thus, domestic start-ups can pursue innovation and growth activities that they could not pursue without capital from abroad. In addition to accessing capital, start-ups can also benefit from the expertise and networks of foreign investors. This can lead to better access to foreign collaboration partners, sales markets or exit opportunities.¹⁰ On balance, the participation of professional, foreign VC investors can help increase the start-up rate, growth and business success as well as the employment and value-added contribution of domestic start-ups to the economy as a whole.¹¹

For investors, cross-border investments provide access to a broader deal flow and an important opportunity for broadening the regional diversification of their own portfolios. By contrast, the transaction costs for VC investors and start-ups are higher in foreign investments than in domestic investments, for example as a result of regional differences in regulatory provisions.¹² The domestic VC sector, too, can benefit from foreign investments. Joint financing operations with foreign syndication partners can enable domestic investors to benefit from external specialist knowledge and international best practices, which contributes to professionalising the domestic VC sector.¹³ The participation of foreign investors can speed up the development of the local VC sector through such channels.¹⁴ Moreover, foreign and domestic investors typically take on complementary roles. While domestic investors have advantages in identifying investment opportunities and structuring deals because of their proximity to the market, foreign investors, especially from the US, have advantages in financing large growth rounds because of their financial strength. They also offer access to markets and exit channels abroad. At the same time, however, the entry of foreign investors into the market also means that competition for local investment opportunities increases for the domestic VC industry. Foreign capital providers may potentially be preferred because of their higher financial strength or be able to secure more favourable conditions for themselves in the structuring of financing rounds. In extreme cases, a domestic funding offer could be crowded out by foreign VC investors, making the development of a local sector of VC investors more difficult. In addition, a high dependence on foreign capital providers could become problematic if they scale back their international

activities again. The fact that investors expand and reduce their financing activities abroad in strong and weak phases of the VC market has been evident not least in the years since 2020, which have been characterised by multiple global crises (Figure 1, Figure 2). For the country of VC investors who are active abroad, their foreign investments could also be seen as a loss of potential domestic investments.

Finally, the involvement of foreign investors may cause start-ups and entrepreneurs to leave the country or induce start-ups to preferably exit through the foreign M&A or capital market.¹⁵ This can lead to a loss of innovative and economic strength in the country of origin. Particularly in technologies that are critical for a nation's sovereignty, the unwanted transfer of knowledge to another country may be an argument against foreign VC investments.¹⁶

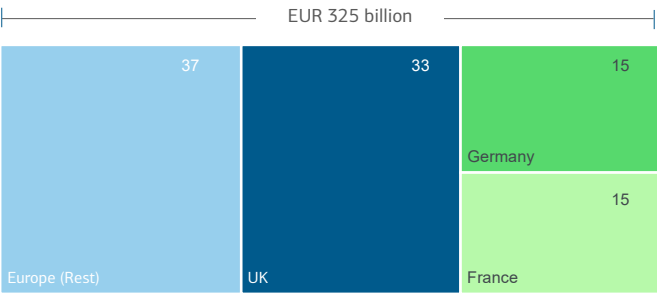
The research provides empirical indications of many such potential effects of cross-border VC investments. However, which specific aspects come to bear or even predominate, and whether cross-border VC investments mostly harm or benefit the local VC ecosystem is not clear and depends on the individual case. In particular, differences in valuation that exist between European and US start-ups suggest that the closer integration of VC markets through cross-border investments provides great potential for more efficient financing in favour of German and European start-ups. Furthermore, it must be assumed that many of the discussed benefits of cross-border VC investments, such as the ability to access networks and expertise from abroad, will be particularly felt in practice in VC ecosystems such as that in Germany, which have yet to develop compared with leading countries such as the US and the UK.

International investments in European start-ups: financing mix varies substantially between countries

A closer look at the funds raised by European start-ups illustrates what role cross-border investments play for European VC markets. The oldest and largest national VC market in Europe is in the UK, which accounted for around one third of the European deal volume based on the investments made by start-ups domiciled there between 2020 and 2024 (Figure 4). It is followed by the VC markets in Germany and France. Start-ups domiciled there each received 15% of all funds invested in Europe.

Figure 4: Nearly two thirds of VC financing for European start-ups goes to the UK, Germany and France

VC investments in European start-ups in 2020–2024 by head office location in per cent



Source: Dealroom.co, KfW Research

Table 1: Cross-border VC investments come with potential advantages and disadvantages

Level	Advantages	Disadvantages
Domestic start-ups / entrepreneurs	<ul style="list-style-type: none">– Access to international capital– Access to international networks and expertise– Access to new sales and exit markets	<ul style="list-style-type: none">– Distance to investor– Lower permanence of foreign investors' involvement
Domestic VC investors	<ul style="list-style-type: none">– Financing rounds are realised with the aid of foreign syndication partners– Knowledge transfer from foreign syndication partners	<ul style="list-style-type: none">– Competition from foreign investors
Foreign VC investors	<ul style="list-style-type: none">– Regional diversification of investments– Potential to harness regional valuation differentials	<ul style="list-style-type: none">– Higher transaction costs– Less knowledge of regional markets abroad
Domestic VC ecosystem	<ul style="list-style-type: none">– Development of ecosystem through inflow of funds and expertise– Increase in business growth and success of domestic start-ups	<ul style="list-style-type: none">– Crowding out of domestic investors– Exodus of start-ups and entrepreneurs / brain drain
Foreign VC ecosystem	<ul style="list-style-type: none">– Entry of foreign entrepreneurs / expertise	<ul style="list-style-type: none">– Loss of domestic financing offer

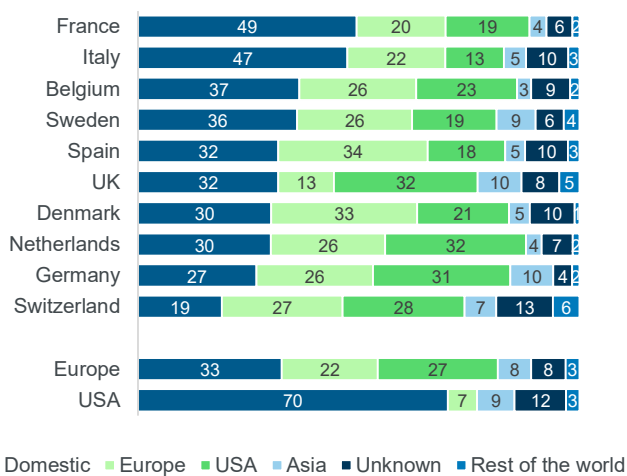
Own rendition based on Weik et al. (2024) and Bradley et al. (2019).¹⁷

Significant differences in the financing sources of start-ups can be observed from one VC market to another. Within Europe, Germany stands out as one of the markets in which participations from abroad have the greatest weight. This aligns with survey results among European VC investors in which Germany is rated as the most promising country for VC investments within Europe.¹⁸ Between the years 2020 and 2024, close to one quarter of the funds invested by VC investors in German start-ups came from VC investors who were also domiciled in Germany. Among the most important markets in Europe¹⁹, only in Switzerland did domestic VC investors play a smaller role (Figure 5). A further 26% of investments in German start-ups were financed by VC investors from other European countries. US investors provided 31% of the funds and investors from Asia gave 10%, each of which was above the average compared with the European market as a whole. In the UK, the largest European VC market, start-ups obtained almost one third of the funds they raised from domestic investors. The country where domestic investors have the greatest weight for start-up finance is France, where they account for nearly half the deal volume.

Cross-border VC investments play a relatively large role for German start-ups. Nearly three quarters of the funds raised in Germany come from foreign investors. In the UK it is two thirds, in France only around half of all VC investments.

Figure 5: Significant differences in the origin of venture capital for start-ups in various countries

Share in deal volume by country and funding source (2020–2024) in per cent



Source: Dealroom.co, KfW Research

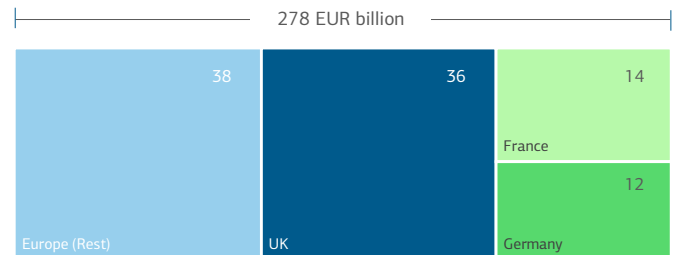
A comparison between Europe and the US shows that the European VC ecosystem finances fewer start-up investments from its own resources. Start-ups in Europe obtain 55% of the funds they raise from investors from Europe (33% from domestic investors and 22% from investors from other European countries). In the US, domestic investors finance 70% of the funds invested in start-ups there, a significantly larger share. Furthermore, it is evident that US VC investors are very important for the financing of European start-ups. More than one quarter (27%) of the investments in European start-ups come from the US. European investors, in turn, represent a mere 7% of the deal volume in the US.

Foreign participations of European VC investors: sharp differences in regional diversification of investments

The second aspect of internationally integrated VC markets besides the origin of funds used to finance domestic start-ups is the cross-border financing activity of domestic VC investors. Between the years 2020 and 2024, VC investors headquartered in Europe invested an estimated approx. EUR 278 billion in start-ups around the world. German VC investors were among the most active investors from Europe, accounting for around 12% of these investments (Figure 6). A further 14% was invested by VC investors from France. The most active VC investors in Europe were from the UK. They were responsible for more than one third of all funding by European VC investors. Overall, VC investors from these three countries are the most important sources of investments from Europe and together make up around 62% of all start-up finance originating in Europe.

Figure 6: UK, France and Germany are the top three source countries for VC in Europe

Global VC investments from Europe in 2020–2024 by source country in per cent



Source: Dealroom.co, KfW Research

The European VC market is clearly internationally integrated not just with a view to the financing sources of start-ups but also with regard to European capital providers. Between 2020 and 2024, VC investors headquartered in Europe made around 38% of their investments in their own country (Figure 7). A further 26% of their investments went to cross-border investments within Europe. Taken together, European venture capital investors thus invested 64% of their funds within Europe. By comparison, investors from the US were focused slightly more strongly on their own economic region and invested some 75% of their funds there.

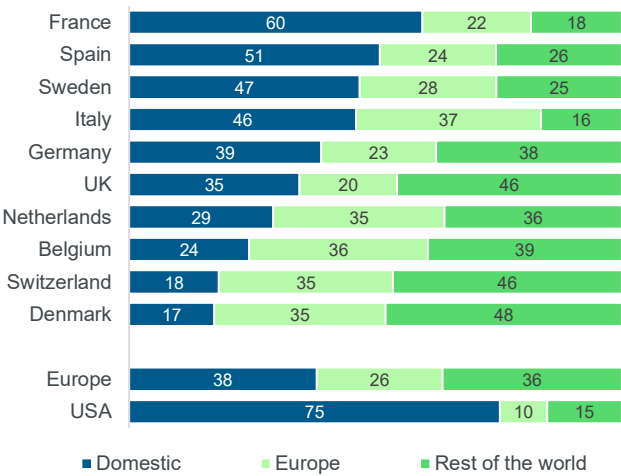
VC investors from Germany made just under 40% of their investments at home, which is roughly in line with the average for the European market. In Switzerland or Denmark, for example, VC investors spread their investments more broadly internationally and each invested under one fifth of their funds at home. In France, the investments of domestic VC investors are most strongly focused on the domestic market. VC investors domiciled there invested 60% at home.

As was to be expected, investments by European VC investors in later financing stages are diversified much more internationally than in earlier financing stages. European VC investors participated in businesses in their own country with 58% of their seed funding between 2020 and 2024. In the scale-up segment, they invested 33% of their funds in the home market, which was much less.

VC investors from Germany diversify their investments regionally in a similar way as investors across Europe. Just under 40% of their investments are investments in start-ups in their own country. VC investors from France have the strongest national focus and invest around 60% in their home country.

Figure 7: German investors are internationally diversified in a similar way as VC investors in Europe as a whole

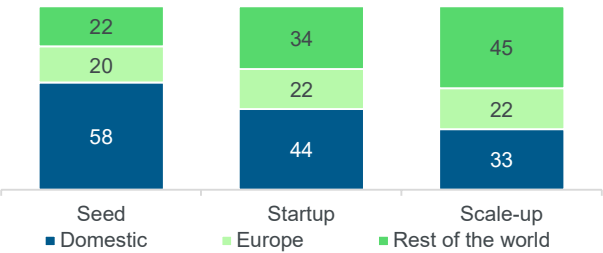
Shares of funds invested by European VC investors by target country (2020–2024) in per cent



Source: Dealroom.co, KfW Research

Figure 8: European VC investors are most internationally diversified in scale-up financing

Shares of funds invested by European VC investors by target country and financing stage (2020–2024) in per cent



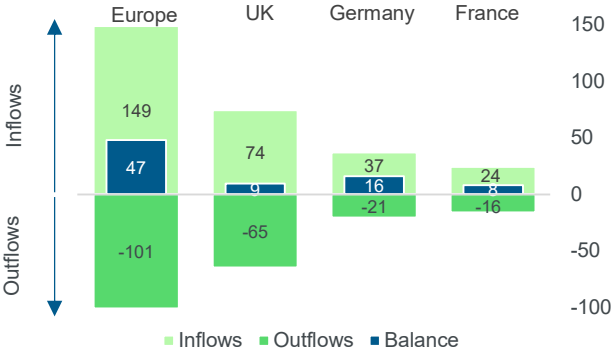
Source: Dealroom.co, KfW Research

Capital inflows and outflows in the European VC ecosystem

The analyses undertaken thus far have shown that the international integration of the major European VC markets always has two sides. Venture capital investors from one country invest in another country while at the same time portfolio companies domiciled in that country obtain funds from foreign venture capital investors. With a view to the overall European VC market, European start-ups have benefited more strongly from capital inflows from non-European countries in recent years than capital flowed out from VC investors domiciled in Europe. Between 2020 and 2024, inflows of venture capital into Europe were almost 50% higher than investments by European VC investors outside Europe (Figure 9). On balance, the European VC ecosystem experienced a net capital inflow of around EUR 47 billion during this period.

Figure 9: Approx. EUR 47 billion in net VC inflows to Europe between 2020 and 2024

VC inflows, outflows and balance by region in EUR billions (2020–2024)



Source: Dealroom.co, KfW Research

German VC investors invested an estimated EUR 21 billion abroad while foreign VC investors invested an estimated EUR 37 billion in German start-ups. Thus, the German ecosystem received net VC inflows of around EUR 16 billion, more than the UK or France.

For Germany, it has also been found that over the past ten years, high gross and net VC imports went hand-in-hand with strong domestic investment activity by domestic VC investors.²⁰ During these years, capital inflows from foreign VC investors combined with domestic investments contributed to a generally larger supply of finance for start-ups in Germany. The comparison with the most important countries in Europe, in relation to the size of the domestic VC market, shows that VC inflows are of great importance for the German ecosystem (overall investments in domestic start-ups) (Figure 10). Among the most important European VC ecosystems, Spain was the only one to experience higher net capital inflows than Germany in relation to the domestic VC market between 2020 and 2024. Net capital outflows, in other words higher foreign investments by domestic VC investors than funding by foreign VC investors in domestic start-ups, occurred in Belgium, Denmark, Switzerland, the Netherlands and Italy between 2020 and 2024. Interestingly, the US VC ecosystem was also a net importer of venture capital between 2020 and 2024.

The German VC ecosystem is a net capital importer. Between 2020 and 2024, German start-ups were able to raise an estimated EUR 16 billion more than the financing activity of domestic VC investors would have allowed them to. By European standards, net imports of VC in Germany were relatively high.

Figure 10: High net inflows into German VC ecosystem compared with rest of Europe

VC inflows, outflows and balance pro rata to domestic investment volume (2020–2024)



Note: Countries in Europe with the largest domestic VC markets in 2024 (deal volume above EUR 1 billion).

Source: Dealroom.co, KfW Research

Finally, a closer look at the most important European VC markets – UK, Germany and France – illustrates different aspects (Figure 11). First, the integration with the US VC market through cross-border VC investments is strongest in all three countries compared with other foreign markets. As the largest European market, the UK boasts the highest bilateral investment flows. US VC investors invested an estimated EUR 39 billion there between 2020 and 2024. At the same time, VC investors from the UK invested some EUR 35 billion in the US. Second, the UK is a net exporter of venture capital to Germany, France and the rest of Europe but a net importer only from other parts of the world. Home to the oldest and largest VC market in Europe, the UK continues to be a key link to the international VC market. Third, it is evident that Germany records net inflows of venture capital from the VC markets in Europe, the US and Asia. It is only in the rest of the world that German VC investors invest more than those regions invest in German start-ups. Finally, the French VC ecosystem exhibits net VC outflows to Germany, Asia and the rest of the world. The volume of funds invested there by French VC investors was higher than what came from those regions in the form of VC investments to France. However, the French ecosystem also has the strongest national focus and VC outflows and inflows there have a relatively low volume overall.

Figure 11: Net inflows into the European VC ecosystem from the UK

VC inflows, outflows and balance in EUR billions (2020–2024)



Source: Dealroom.co, KfW Research

Conclusion

Until into the 1990s, geographic proximity between investors and start-ups was deemed a precondition for venture capital financing. In opposition to this classic perspective on venture capital, cross-border investments today play an important role for start-ups in Europe. The German VC ecosystem is also closely integrated into the international market through cross-border financing deals. As inflows of venture capital from foreign investors in Germany significantly exceeded outflows of funds from domestic VC investors to other countries in the past years, German start-ups experienced a net gain in financing options that enabled them to raise more funds for their growth than the financing activity of the local VC industry alone would have allowed.

The fact that VC inflows into Germany exceeded outflows was not due to German VC investors exercising restraint in their foreign activities. In fact, German VC investors spread their investments between domestic and foreign markets to a similar extent as investors in Europe in general. Rather, foreign investors exhibited a particularly strong interest in German start-ups. The high VC inflows into the German ecosystem are primarily an expression of the level of quality and the innovation and growth potential which international investors attribute to domestic start-ups and entrepreneurs. After all, internationally active VC investors incur additional costs when they invest outside their home market and therefore invest primarily in places where they expect the highest returns compared with these transaction costs.

But the high capital inflows into the German VC ecosystem are a double-edged sword. They involve a high dependence on foreign capital compared with the rest of Europe. This can contribute to greater volatility and, hence, uncertainty around VC financing for local start-ups, as was evident in recent years with VC investors from abroad increasingly withdrawing from the German market in response to crises.²¹ Furthermore, the exodus of start-ups, talent and expertise as a possible corollary to the participation of foreign investors is critically debated time and again in the public domain and economic policy arena. Finally, growing protectionist trends, particularly from the US, are currently strengthening unfavourable attitudes towards dependence on foreign capital.

It is not entirely clear what would be the optimal funding mix between domestic and foreign capital for the economy as a whole and from an economic policy perspective. The relatively high importance of investments from abroad could indicate that the German VC ecosystem should become less dependent on the supply of foreign capital. However, this will require the domestic supply of finance to be strengthened further on a sustained basis without limiting valuable cross-border funding activities. After all, the benefits of cross-border financing activities are of great relevance particularly for VC ecosystems in Germany and the rest of continental Europe, which have yet to evolve compared with the international benchmarks in the US and UK. In addition to capital, the participation of foreign inves-

tors thus opens up important access to networks, technical expertise and international best practices. Excluding foreign investors appears justifiable only for particularly critical technologies, for example in the defence sector or for critical infrastructure. VC investors domiciled in Germany must also be able to enjoy the higher returns of internationally diversified investments. This is a prerequisite for venture capital in Germany to be convincing as an asset class of its own based on an appropriate risk and return profile and, in this way, to mobilise private capital for innovation and growth finance.

In Germany, the Federal Government has initiated a number of measures that already make a major contribution to strengthening the funding basis and conditions for investors and start-ups in the country. Besides the financial support available under the Future Fund since 2021, these include the WIN Initiative launched in 2024. The Financing for the Future Act of 2023 was another positive step for enhancing Germany's attractiveness as a location for funds. This pathway should be systematically followed. After all, effects of international VC investments that are often critically debated, particularly the migration of start-ups and talent to other countries, primarily hinge on the strength of the local VC ecosystem. In VC ecosystems that have good conditions for entrepreneurship, growing and financing businesses, there are fewer reasons for leaving irrespective of the existence and use of a foreign supply of capital.²² Apart from that, strengthening the exit channels in Germany and Europe appears to be a key field of action for counteracting a possible loss of innovative and economic strength via exits to other countries. After all, the absorptive capacity of exit markets, especially in the US, is currently significantly stronger than in Europe – both via M&As and through IPOs. This provides start-ups located there with better access to financing pathways subsequent to VC funding and enables exits at higher valuations. Thus, improving the exit channels would also improve the opportunities for generating returns from VC investments and make VC investments in German and European start-ups more attractive.

Today the national VC markets in Europe are already part of the European ecosystem in which the UK in particular acts as a strong link to the international VC market. Within Europe, however, the advantages of the free flow of capital should be capitalised upon much more effectively. The larger and more liquid contiguous capital market in the US is a much more fertile ground for the emergence of larger VC funds. These are important particularly for financing the scale-up segment, in which the German and European VC ecosystem is still most heavily dependent on foreign capital.

On balance, it can be concluded that the development of the German and European VC ecosystem must be approached from both sides: both by systematically strengthening the local supply of capital and the existing framework for start-ups and their investors and by successfully integrating international investors. Both approaches form the basis for securing a strong supply of finance for innovation and growth in the long term.

Methodology for estimating cross-border VC investments

Studies on the VC market and cross-border investments are largely based on commercial databases.²³ The present analysis builds on transaction data from the data provider Dealroom.co. In approximating investment flows, the assumption was made along the lines of the existing literature that in the case of funding rounds with multiple investors the deal volume is spread across all financing partners in equal proportions. All subjects (start-ups and VC investors) involved in a funding round were mapped on the basis of the existing information on the location of their head office.²⁴ The key interest of the present study was to explore the investment decisions of VC investors who directly participate in start-ups and the resulting capital flows. Financing transactions between investors and start-ups were therefore the only object of observation. The study did not consider the national and international capital flows associated with the fundraising by venture capital companies for their funds.²⁵

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<https://www.kfw.de/KfW-Konzern/Service/KfW-Newsdienste/Newsletter-Research/>

¹ These include, for example, business angels, professional venture capital companies, corporate venture capital investors or state actors (government venture capital).

² E.g. Gorman, M., and Sahlman, W. (1989). What do venture capitalists do? *Journal of Business Venturing*, 4, 231–248; Gompers, P. (1995). Optimal Investment, Monitoring, and the Staging of Venture Capital. *Journal of Finance* 50, 1461–1489; Sahlman, W. (1990). The structure and governance of venture capital organizations. *Journal of Financial Economics*, 27, 473–521; Manigart, S., and Wright, M. (2013). Reassessing the relationships between private equity investors and their portfolio companies, *Small Business Economics*, 40, 479–492.

³ Gompers, P. and Lerner, J. (2001). The venture capital revolution. *Journal of economic perspectives*, 15(2), 145–168.

⁴ Ooghe, H., Manigart, S. and Fassin, Y. (1991). Growth patterns of the European venture capital industry. *Journal of Business Venturing*, 6(6), 381–404; Wright, M., Pruthi, S. and Lockett, A. (2005). International venture capital research: From cross-country comparisons to crossing borders. *International Journal of Management Reviews*, 7(3), 135–165.

⁵ 'Some VCs even make their investment decisions based on the "20-minute rule", which is that if a start-up company seeking venture capital is not within a 20-minute drive of the VCs' offices, it will not be funded.' Cf. Cumming, D. and Dai, N. (2010). Local bias in venture capital investments. *Journal of empirical finance*, 17(3), 362–380.

⁶ Sorenson, O. and Stuart, T. E. (2001) Syndication networks and the spatial distribution of venture capital investments. *American Journal of Sociology* 106(6): 1546–1588; Mäkelä, M.M. and Maula, M. V. J. (2006) Interorganizational commitment in syndicated cross-border venture capital investments. *Entrepreneurship Theory and Practice* 30(2): 273–298.

⁷ Manigart, S., De Pijcker, S. and Bose, B. (2010). International private equity flows. In Cumming, D. (ed.), *Private Equity: Fund types, Risk and Returns, and Regulation*. New York: Wiley.

⁸ Tykvová, T., and Schertler, A. 2011. Cross-border venture capital flows and local ties: evidence from developed countries. *The Quarterly Review of Economics and Finance*, 51, 36–48; Aizenman, J. and Kendall, J. (2012) The internationalization of venture capital. *Journal of Economic Studies* 39(5): 488–511.

⁹ Markowitz, H (1952), 'Portfolio selection', *Journal of Finance*

¹⁰ Chahine, S., Saade, S. and Goergen, M. (2019). Foreign business activities, foreignness of the VC syndicate, and IPO value. *Entrepreneurship Theory and Practice*, 43(5), 947–973; Bertoni, F. and Groh, A. P. (2014). Cross-Border Investments and Venture Capital Exits in Europe. *Corporate Governance: An International Review*, 22(2), 84–99.

¹¹ Hellmann, T. F., Montag, A. and Tåg, J. (2019). Foreign investors and domestic company growth: Evidence from US venture capital investments in Sweden. *Saïd Business School WP*.

¹² Wright, M., Pruthi, S. and Lockett, A. (2005). International venture capital research: From cross-country comparisons to crossing borders. *International Journal of Management Reviews*, 7(3), 135–165.

¹³ Khurshed, A., Mohamed, A., Schwenbacher, A. and Wang, F. (2020). Do venture capital firms benefit from international syndicates? *Journal of International Business Studies*, 51(6), 986–1007; Hellmann, T. and Thiele, V. (2019). Fostering entrepreneurship: promoting founding or funding? *Management Science*, 65(6), 2502–2521.

¹⁴ Hellmann, T. and Thiele, V. (2019). Fostering entrepreneurship: promoting founding or funding? *Management Science*, 65(6), 2502–2521.

¹⁵ Weik, S., Achleitner, A. K. and Braun, R. (2024). Venture capital and the international relocation of startups. *Research Policy*, 53(7), 105031.

¹⁶ Akcigit, U., Ates, S. T., Lerner, J., Townsend, R. R. and Zhestkova, Y. (2024). Fencing off Silicon Valley: Cross-border venture capital and technology spillovers. *Journal of Monetary Economics*, 141, 14–39.

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¹⁸ Botsari, A. and Lang, F. (2024). EIF VC Survey 2024: Market sentiment, EIF Market Assessment and Research Working Paper 2024/09, European Investment Fund p. 44.

¹⁹ VC markets with overall investments in domestic start-ups of at least EUR 1 billion in the year 2024.

²⁰ The correlations between annual gross (net) VC inflows into Germany and the volume invested by domestic VC providers in the home market between 2014 and 2024 were 0.94 (0.84).

²¹ Viète, S. and Metzger, G. (2023). KfW Venture Capital Dashboard Q4 2023, KfW Research.

²² See also the discussion in Bradley, W. A., Duruflé, G., Hellmann, T. F. and Wilson, K. E. (2019). Cross-border venture capital investments: what is the role of public policy? *Journal of Risk and Financial Management*, 12(3), 112.

²³ Devigne, D., Manigart, S., Vanacker, T. and Mulier, K. (2019). Venture capital internationalization: Synthesis and future research directions. *Contemporary Topics in Finance: A Collection of Literature Surveys*, 215–248.

²⁴ See also Bradley, W. A., Duruflé, G., Hellmann, T. F. and Wilson, K.E. (2019). Cross-border venture capital investments: what is the role of public policy? *Journal of Risk and Financial Management*, 12(3), 112.

²⁵ Asdrubali, P. (2023). Patterns of Cross-Border Venture Capital Flows in Europe. Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.