DLA
The Power of Fintech Lending

Managing Director

March 17, 2025

Digital Lending Association e.V. • Friedrichstraße 95 • 10117 Berlin

European Commission
Directorate-General for Research and Innovation –
Attn.: Taskforce on Startups & Scaleups

Call for Advice on the EU Startup and Scaleup Strategy

Ladies & Gentlemen,

DLA welcomes the opportunity to respond to the Commission Call for evidence on the EU Startup and Scaleup Strategy.

The Problem:

We share the view that access to venture capital and growth equity is insufficiently developed. This has a particularly adverse effect on scaleups – the companies that shall shape tomorrow's economic development.

Despite the large amount of capital available in Europe, too little gets invested. Unfortunately, this also has a lot to do with the risk-averse mentality of Europeans. As a result, promising scaleups fail before they can reach a critical size or are sold to more risk-averse investors from the US or Asia.

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In the growth phase, a sufficient base of capital and personnel is the central challenge. Since the first sales do not yet cover costs, financial support can be particularly effective here. Scaleups in the technology sector, for example, rarely have balance sheet assets to present. In most cases, they only have office equipment, licenses and possibly patents. This makes traditional debt financing by banks difficult, however, because an essential part of the rating is an analysis of the balance sheet. What the growing companies have to show – their capitalized own work – is eliminated in the analysis. The result: often a balance sheet over-indebtedness and thus hardly any chance of getting a loan.

To cover their financial needs, scaleups therefore have to turn to external equity investors who provide venture capital or private equity. However, this leads to a dilution of the founders' shares. Time and again, this even results in the exclusion of the founders because they have lost not only the majority but also the significant voting rights as owners.

In addition, it should be noted that venture debt is not really an optimal solution either because of the usually additionally agreed profit participation of the lender ("equity kicker"). Furthermore, the contracts are complex, often exclusively in English and not infrequently riddled with complex additional conditions.

The Solution

From DLA's perspective, the Commission's future efforts should be geared towards expanding funding opportunities for scaleups that strengthen their financial base by providing easier access to 'real' debt capital. We welcome how much has already been done in this area, but much more support is needed if we want to see European champions in the EU. Therefore, the investment of private and, in particular, institutional growth capital should be stimulated by involving all relevant market players. This would not only lead to a broader weighting of risks, but also of opportunities.

In addition to banks, which still provide more than 50% of the financing for scaleups in the EU, **Fintech Lenders (1)** are now also playing an important role in the supply of credit. Having emerged in the years following the financial crisis, they have developed business models to meet

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the financing needs of small and medium-sized enterprises with loans that are less often offered by banks. This makes it easier for scaleups to access alternative financing options that would otherwise be out of reach for them. At the same time, investors looking for appealing investment opportunities have direct and – in the case of securitizations – indirect access to SME financing. The European Commission should take this changing financing landscape into account when drawing up its startup and scaleup strategy. This would effectively avoid gaps in the supply of genuine debt capital. Scaleups would be the winners of intelligent funding models – and so would the European Union.

Yours sincerely

Constantin Fabricius
Managing Director

(1) In line with the Financial Stability Board's 'Global Monitoring Report on Non-Bank Financial Intermediation' for 2024 "fintech lending" is defined as "lending activity facilitated by electronic platforms that are not operated by commercial banks. Fintech lending can be done either via a loan (secured or unsecured), the purchase of debt-based securities (a bond, debenture, or subordinated debt), or the purchase of invoices or receivables from a business." Fintech Lenders can act as auxiliaries or intermediaries. As auxiliaries, they can be in the form of a "marketplace platform", which is an online market that allows lenders to trade directly with borrowers (such as peer-to-peer lending and crowdfunding platforms). But Fintech Lenders can also act as intermediaries when they use their balance sheets to originate the lending.

Refer to https://www.fsb.org/uploads/P161224.pdf, Box 2.1 on pages 17-18.

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