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Evaluation

SECTOR/PROGRAMME EVALUATION

Financing for Innovation

An evaluation of the Venture Capital Investment Programme I (2012-2019)

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This report was prepared by EvD independently and is circulated under the authority of the Chief Evaluator, Véronique Salze-Lozac'h. It was prepared under the supervision of **Samer Hachem**, **Director of Sector, Country and Project Evaluations Division**, by **Alper Dincer, Principal Evaluation Manager, and Oskar Andruszkiewicz, Associate Director** of EvD, and with the support by **Chris Groeber, Intern Analyst**. The Internal Peer Reviewer was **Karin Becker, Principal Evaluation Manager**. The External Reviewer was **Matthew Saal from IFC's Digital Financial Services**. Chris Smart, General Partner – Acacia Capital Partners and George Davies, Venture Partner – Hambro Perks provided sectoral expertise, and made other valuable contributions to this report. Finally, the Evaluation team's thanks go to colleagues from the VCIP and Equity Funds teams for the provision of information and support. Special thanks are directed to Wojciech Ciszek and Mehmet Uvez who were instrumental in arranging EvD's interviews with relevant stakeholders in Poland and Turkey and Nari Been and Lucas Kitzmueller for their help with access to commercial datasets.

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Abbreviations

ADB	The Asian Development Bank
ADT	Approach Paper to Accelerating the Digital Transition
AfDB	The African Development Bank Group
AI	Artificial Intelligence
AIIB	The Asian Infrastructure Investment Bank
CEB	Central Europe and the Baltic states
CoOs	Countries of Operation
COVID-19	Coronavirus disease
CRM	Concept Review Memorandum
CV	Curriculum Vitae
DFIs	Development Finance Institutions
DTM	Deal Tracking Module
EAC	External Advisory Committee
EBRD	The European Bank for Reconstruction and Development
EEC	Eastern Europe and the Caucasus
EIB	The European Investment Bank
EIF	The European Investment Fund
EQs	Evaluation Questions
ESD	Environment and Sustainability Department
ESIF	The Early-Stage Innovation Facility
ETC	Early Transition Countries
EvD	Independent Evaluation Department
FMO	Netherlands Development Finance Company
FRM	Final Review Memorandum
FTE	Full Time Equivalent
GDP	Gross Domestic Product
GP	General Partner
HR	Human Resources
ICT	Information And Communications Technology
IDB	The Inter-American Development Bank
IFC	The International Finance Corporation
IFIs	International Finance Institutions
IRR	Internal Rate of Return
IsDB	The Islamic Development Bank
IT	Information Technology
KEI	Knowledge Economy Initiative
LP	Limited Partner
MDBs	Multilateral Development Banks
MM	Money multiple
OCE	Office of the Chief Economist
OGC	Office of the General Counsel
OL	Operation Leader
OPSCOM	Operations Committee
PE	Private Equity
PFR	Polish Development Fund
QCIs	Qualified Co-Investors
SBIC	Small Business Investment Committee
SCF	Strategic Capital Framework
SEE	South-Eastern Europe
SEMED	The Southern and Eastern Mediterranean region
SSF	Shareholder Special Fund
STEM	Science, Technology, Engineering, and Mathematics
US	United States
US$	US Dollar

VC	Venture Capital
VCIP	Venture Capital Investment Programme
WBG	The World Bank Group

Executive Summary

In the last two decades, financing for innovation has gained prominence in the strategic agendas of the multilateral development banks (MDBs) and has become part of their public purpose. Accordingly, some MDBs such as the ADB, AIIB, EIB and WBG have developed explicit strategies or approaches focusing on technological change and digitalisation while others, such as the AfDB, IDB and IsDB, are in the process of doing so.

There are several reasons why the MDBs are recalibrating their strategic and operational priorities. First, increased interconnectivity and automation, and more broadly the fourth industrial revolution, have made it clear that growth cannot be sustained only by accumulating factors of production: developing a vibrant entrepreneurship ecosystem that can absorb globally accessible technologies that drive productivity is one among other factors that are necessary. Second, accelerating the pace of innovation in developing and underdeveloped countries is necessary to fight climate change. Third, job creation induced by an innovative SME sector is critical in addressing social imbalances.

Within this context, in 2011, the EBRD outlined its approach to promote knowledge economies in its economies. The Knowledge Economy Initiative (KEI) aimed at *"guiding the Bank in identifying, investing in, and implementing the projects, conditions and policies needed to improve competitiveness through innovation."* It entailed an operational response with three arms: (i) ICT infrastructure projects; (ii) indirect investments through private equity and venture capital (VC) funds, and (iii) direct investments in early- and growth-stage technology companies, i.e., the Venture Capital Investment Programme (VCIP).

As part of the KEI, the principal objective of VCIP I was to *"support the development of technology innovation and its commercialisation and promote venture capital investments in the CoOs"* where there are scarce financing options for early and growth stage technology companies. The Bank expected to achieve these high-level objectives by doing the following:

- Deploying VCIP funds in its economies and helping to close the financing gap in the VC markets – as measured by portfolio indicators.
- Demonstrating market expansion – as measured by profitable exits, increased revenue, employment, and number of patents filed by portfolio companies.
- Encouraging VC to increase its marginal presence in EBRD economies – as measured by capital invested by co-investors, encapsulating new investors in follow-on financing rounds, and first-time investors in EBRD economies.

The Bank expected these activities to generate a 20 per cent gross internal rate of return (IRR) on the portfolio realisation and have a potential to achieve the mobilisation of up to €500 million for investments in innovative companies.

The Board approved the VCIP I in September 2011 with an envelope of €100 million. The programme was put into operation in March 2012 and investment activity picked up in Q2 2014. The initial investment period was four years, in other words, until March 2016. The Board later approved its extension until March 2019. The programme is now ended for new investments. Between 2012-21, the Bank, alongside co-investors, invested in 15 companies in 9 countries, deploying €68 million under the programme. Out of 15 investments, 11 are completed.

EvD included the evaluation of the VCIP I in its work programme as it is ready to be evaluated, and the demand from Board members is high. The findings and recommendations of the evaluation will inform the implementation of the Bank's on-going and recently introduced interventions in VC. At present, VCIP II is underway with 12 active projects. Additionally, the Bank put in place a €120 million Venture Debt Framework in February 2021 and a €250 million Venture Capital Investment Programme III (VCIP III) in February 2022.

This evaluation covers all projects that the Bank implemented under the VCIP I. In a few cases and where relevant, the evaluation refers to the attributes of VCIP II and VCIP III. However, VCIP II and VCIP III are not within the scope of the evaluation.

The evaluation involved a mixed-methods approach, including the following:

- a review of monitoring data and internal documentation
- a country case study of Poland
- an analysis of market data and a comparison of the performance of pipeline and portfolio companies
- interviews with 7 companies that have invested, 4 co-investors, 17 internal stakeholders, 14 external stakeholders with representation from MDBs and other market players.

Key messages

The rationale for establishing a direct VC investment vehicle was and still is valid.

The design and objectives of the programme were relevant to the local companies and investors as there was a sizeable VC financing gap in EBRD economies and VC ecosystems were in nascent form. Co-investors and wider stakeholders broadly confirm the validity of the programme's objectives and design.

With respect to its relevance to EBRD strategy, the programme design and objectives were valid in terms of its expected contribution to addressing the financing gap and developing a VC ecosystem. Nevertheless, in relation to the ultimate objective of the KEI, ***"improving competitiveness through innovation"***, the VCIP did not articulate in sufficient detail how its inputs and outputs would translate into innovation via technology absorption and/or enhance economies' capacity to generate value added. Consequently the potential for the financial upside dwarfed all other investment considerations, including technology innovation.

The Bank implemented the programme in sync with its indirect investments in VC funds. The VC funds in which the Bank invested generally acted as a source of pipeline and were rarely in competition with the VCIP team, mainly because the Bank's direct and indirect VC investments operated at different stages of the financing chain. However, the potential for broader institutional learning from direct VC investments remained restricted. This is due in particular to the fact that the VCIP team preferred to keep a low profile within the Bank and to limit its interaction with the relevant Bank units (such as ICT, Fintech sandbox, Star Venture, Digital Hub) to a minimum.

The financial success of the portfolio contributed to the development of the VC ecosystems, however, its impact on innovation has been limited.

Based on available data, it appears that the VCIP I performs on a par with European venture funds from the same vintage years of 2011, 2012, 2013 and 2014. The Evaluation team assesses this as strong performance given that the VCIP was a first-time fund. However, time-to-liquidity stands out as an area of concern and the financial success of the programme still depends on pending exits. Indeed, two of the four

remaining companies are about to complete their eighth year in the portfolio.

What would have happened to the VCIP I companies in the absence of the VCIP I? Without a rigorous counter-factual analysis, this evaluation cannot give an exact and complete answer to this question. Nevertheless, it compared the performance of the 15 companies that received investment under the VCIP I with that of 30 companies that were part of the core pipeline but did not benefit from any EBRD investments. On average, companies under the VCIP I grew their headcount by more than 250 and attracted at least an additional €15 million in financing on top of the Bank's financing compared to the average of the core pipeline, indicating a plausible positive effect of the VCIP I.

In terms of supporting the development of VC ecosystems in EBRD economies, the VCIP I was not just "riding the wave" of market trends. The majority of the elements of claimed financial and non-financial additionality were borne out. Their introduction helped the growth of VCIP I companies such as Trendyol, DocPlanner and PandaDoc. To various degrees, the success of these companies acted as the demonstration effect that encouraged VC to increase its marginal presence in EBRD economies.

In terms of supporting competitiveness through innovation, the programme has been only partially effective. The companies that the Bank invested in under VCIP I had innovative business models. Generally, in terms of imitating and adapting globally available technologies to local markets, the portfolio companies were successful. However, only a few demonstrated global ambitions. Against the expectation at the approval, none of the portfolio companies filed a single patent application. Further, there have been no investments in the two technology sectors explicitly mentioned in the approval document – cleantech and semi-conductors and materials. Instead, the vast majority of the investment went to companies that were either online marketplaces or e-commerce platforms, sectors typically far from "frontier" innovation. Similarly, none of the investees established any company-university linkages. There is an opportunity for the VCIP to assume more risk and invest in a wider range of sectors that could directly support competitiveness and innovation in EBRD economies.

The design of the internal VC programme is innovative and sound. Nevertheless, it still presents potential for higher synergies inside the EBRD and limitations to sustainability and scalability.

Designing an internal VC fund within a MDB was a novel idea in 2011. The Bank concretised it and achieved a first amongst MDBs; it managed to put in place an internal VC fund that functioned efficiently in terms of sourcing, screening, risk appraisal and post-investment activities. This has helped the Bank maintain a commercially healthy VCIP portfolio.

The VCIP team follows the regular EBRD project approval process with one exception: an External Advisory Committee (EAC) – a bespoke body designed for the VCIP. The EAC has been instrumental in project appraisal and selection and, in certain cases, post-investment guidance. It offered a critical extra layer of scrutiny and comfort and has been a source of vital industry knowledge for the Investment team. Any investment proposal is first submitted to the EAC which then appraises it and recommends (or not) for investment. The proposal then follows routine EBRD processes: post EAC recommendation, the VCIP Investment team submits projects to the EBRD Small Business Investment Committee, which has the option, if necessary, to escalate the submission to the Operations Committee (OPSCOM).

Under the programme, the Bank deployed €68 million between 2012-21. The

expectation at the approval was to deploy €100 between 2012-16. This was because the Bank's internal processes were not fit to run an internal VC fund at the onset. Tailoring them required two years of multi-departmental effort. Since the inception of the programme, the Bank has made substantial progress in aligning with market practice in terms of timelines. Nevertheless, it is still not as agile as a typical VC fund and there is an entrenched perception of EBRD as a slow and inflexible co-investor.

Running an internal VC programme has been less costly than deploying the same amount of capital via indirect VC funds. This is because the VCIP is free of any management fees and carry. However, senior VCIP bankers left the team throughout 2022. As a result, the total number of VCIP bankers dropped from six to two and a half FTE (its lowest point) at the end of February 2023. This adversely affected the management of the VCIP I portfolio as well as the deployment of funds under the VCIP II and VCIP III and may put the future sustainability and scalability of the VCIP at risk.

Finally, opportunities for collaboration between the VCIP team and related Bank units have been tapped in some cases, while they remain to be tapped in others. The VCIP team's engagement with the Gender and Economic Inclusion Team, for example, has been fruitful. Similar synergies with the rest of the Bank have yet to be established however, with a view to ensuring the overall high performance of VC investments financially but also in terms of additionality and impact.

Recommendations

Recommendation 1: Consider developing an approach that casts a broader net in terms of technology sectors to enhance the VCIP's impact on competitiveness and innovation. While financially successful, the execution of the VCIP I investment strategy led to a portfolio of companies clustered within two sectors. There is an opportunity moving forward for the VCIP to explore ways, for example through internal and/or external cooperation, to invest in a wider range of technology sectors that could directly support competitiveness and innovation in EBRD economies.

Recommendation 2: Enhance current structure and arrangements by reviewing the organisation and resourcing of the VCIP team (including possible out-of-the-box arrangements) so that the Bank achieves both its investment strategy and the internal synergies required for high additionality and impact. The success of EBRD investing in VC should be measured by financial performance together with achieving sound banking, additionality and impact. Running an internal VC fund within the Bank comes with opportunities for enhanced additionality and impact through institutional synergies, but it is subject to Bank-wide constraints that render it less flexible than other market participants and may limit its overall performance. In line with the previous recommendation, there is an opportunity, moving forward, for the EBRD to review arrangements related to its VC investment model to both foster increased synergies internally and achieve high financial performance.

1. Context: A tool for accelerating the digital transition – the Venture Capital Investment Programme (VCIP)

1.1. EBRD's growing focus on digitalisation

1. **The prominence of promoting innovation and digitalisation has grown within the Bank's strategic and operational priorities over the last decade.** This is mainly because EBRD economies generally are lagging in their ability to reap the benefits of technological change while the digital transition and fourth industrial revolution are changing the structures of their economies and labour markets in profound ways. All EBRD economies have been shaped by these technology disruptions, albeit with varying levels of intensity.

2. **The Knowledge Economy Initiative (KEI), launched in 2011, has grown in prominence on the EBRD agenda.** At the time, hit by the global financial crisis, EBRD economies were seeking avenues to revitalise their economies. The Bank considered innovation (technology absorption through FDI and productivity-enhancing investments) as a catalyst for such a revitalisation and aimed to increase the visibility of the knowledge economy on the EBRD agenda as a driver of sustainable growth for the region. The focus of the KEI was to promote "competitiveness through innovation". In 2014, the Board approved the Knowledge Economy Initiative: Boosting Productivity and Competitiveness that offered "an integrated view of what the Bank can do to support the technological development of the countries where it operates." Eventually, following the introduction of transition qualities, the Bank recognized that building the knowledge economy – one driven by innovation – is an integral part of the EBRD's transition mandate and that enhancing the capacity to generate value added is one of the key objectives under the Competitive transition quality. All these developments eventually shaped the strategic direction set at the Strategic Capital Framework (2021-25) (SCF) and culminated in the introduction of the accelerating the digital transition theme.

3. **Accelerating digital transition underpins the Bank's work in the SCF as a strategic theme.** The SCF sets the Bank's ambition as launching "comprehensive and coherent activities to help countries of operations leverage the digital transition as an enabler of transition across all sectors." EBRD's Approach Paper to Accelerating the Digital Transition (ADT), which followed the SCF, outlines the corresponding operational response needed to realize this ambition: "The Bank will focus on establishing the foundations for digital transformation in our countries of operation, promoting adaptation among clients and governments, and supporting innovation through new entrants across markets."

4. **Specifically, the envisaged response in the ADT about digital-first companies mainly built upon the Bank's experience with its VCIP.** ADT indicated that the VCIP will leverage such investments, amongst other equity instruments: "EBRD will enhance its capabilities in technology equity investing across the growth cycle. By using a range of instruments at different points, the Bank can play an important role in supporting the development of digital first companies across our region with potentially global reach." Accordingly, the VCIP portfolio indicators are tracked in the ADT performance dashboard.

5. **VCIP was one of several operational responses that the Bank rolled out under the KEI.** The Board approved €100 million under the first framework, the VCIP I, in 2011. Subsequently it approved €150 million under VCIP II in 2018, €120 million under the VCIP-Venture Debt in 2021, and €250 million under the VCIP III in 2022. The overarching objective of all these frameworks has been the development and commercialisation of innovative technologies and attracting top VC funds investors to EBRD economies.

1.2. VCIP's description and logic model

6. **Small companies in technology sectors in EBRD economies struggle to get the financing they need locally or from the Bank.** Some end up taking their ideas outside EBRD economies. This has been especially true for companies at the start-up and early growth stages of the corporate lifecycle, given scarce VC funding in many EBRD economies. To address this problem, the Bank has sought to improve the access of start-up/early-stage tech companies to suitable types of financing in their geographies. Such financing includes, amongst others, direct VC investments through the VCIP.

7. **The distinctive element of VCIP I is provision of equity to early and growth stage companies in "software and web services, semiconductors and materials, communications, mobility and media, and cleantech ("technology sectors")."** For each transaction, the Bank envisaged investing up to €10 million in tandem with an experienced VC co-investor ("Qualified Co-investors" [QCIs]) and acquiring a minority shareholding between 10-35 per cent in an investee.

8. **With this approach, the Bank expected to support the development of technology innovation and its commercialisation and promote VC investments into EBRD economies** where there are scarce financing options for early and growth stage technology companies.

9. **The approval document unpacks this high-level objective statement into three goals:**

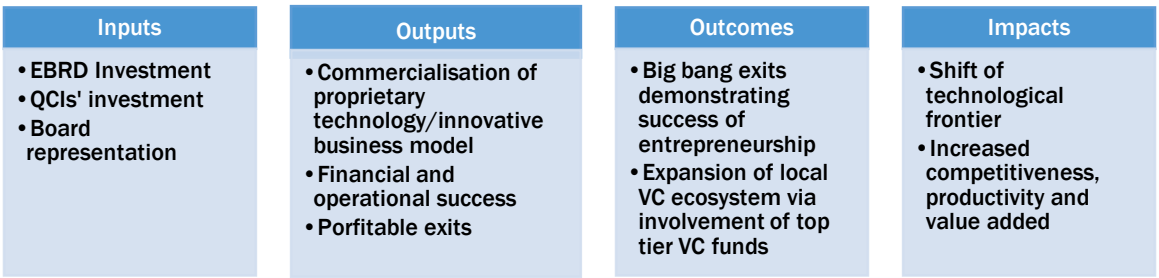
1. Successfully deploy VCIP funds in the Bank's economies and help close the financing gap in the VC markets – as measured by portfolio indicators.
2. Demonstrate market expansion via financing for innovation – as measured by profitable exits, increased revenue, employment, and number of patents filed by portfolio companies.
3. Encourage VC to increase its marginal presence in EBRD economies – as measured by capital invested by co-investors, encapsulating new investors in follow-on financing rounds, and first-time investors in EBRD economies.

10. **To deliver on these goals, the Bank planned to catalyse VC's interest in EBRD economies by approaching methodically the main international and sometimes local co-investors**, helping identify business opportunities through its network of resident offices and offering its knowledge of EBRD economies to the VC community.

11. **The Bank expected QCIs, by virtue of their experience and expertise, to nurture the investee companies through the transfer of skills and know-how.** Supported with the capital injection, such guidance would lead to scaling-up technology and its commercialisation, increased operational and financial performance and, ultimately, successful exits. Nevertheless, the objectives of the VCIP I went beyond successful exits and aimed at the development of local VC ecosystems via the demonstration of new ways to finance start-up/early-stage technology companies. Hence,

ultimately, the Bank anticipated exceptionally successful (big bang) exits under the VCIP to act as an impulse facilitating the increased presence of venture capitalists in the EBRD economies (Figure 1).

Figure 1: Summary Logic Model - VCIP I

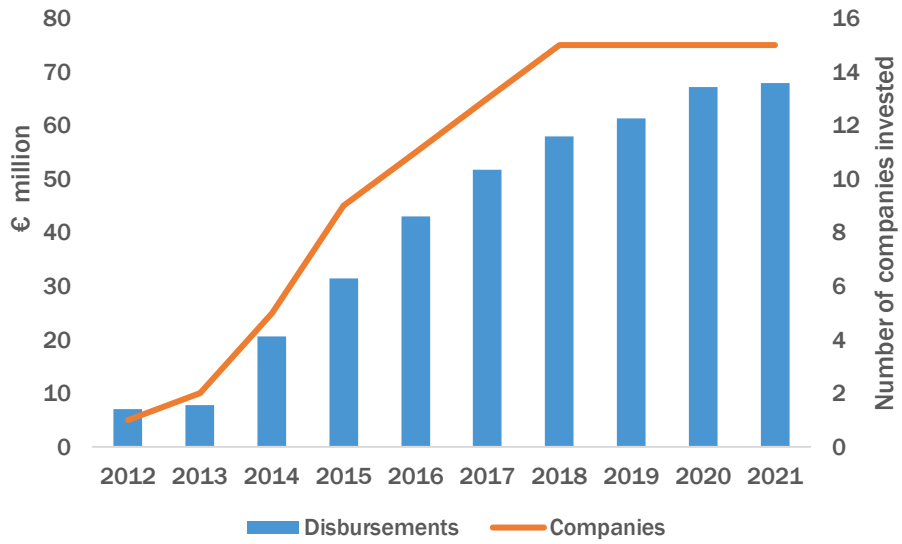


Source: EvD elaboration. Please note that the approval document of the VCIP I does not refer to impacts (shift of technological frontier and increased competitiveness). These are later mentioned in the KEI, which stated that the VCIP contributes to their achievement.

1.3. VCIP I portfolio

12. **Out of the originally approved €100 million in 2011, the Bank deployed €68 million between 2012-21.** There were only two transactions between 2011-13, and investment activity picked up around 2014. During the following 4 years, the Bank deployed VCIP funding for 13 additional companies. Hence, 80 per cent of the funds deployed were invested between 2014-19 and the VCIP team did not invest in new companies after March 2019 – the VCIP I expiry date (Figure 2).

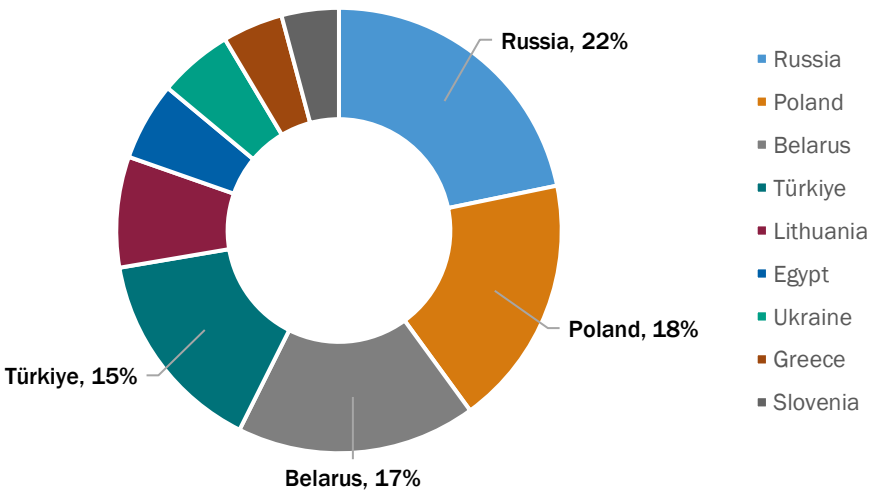
Figure 2: Cumulative disbursements and number of companies invested by year



Source: EvD elaboration based on DTM data

13. **The programme invested in nine countries.** Eight of the fifteen companies in which the Bank invested under the VCIP I were in Russia, Poland and Türkiye. These three countries attracted 55 per cent of total investments. Other countries invested in were Belarus, Lithuania, Egypt, Ukraine, Greece and Slovenia. The Bank did not invest in the Western Balkans or Central Asia under the VCIP I (Figure 3). Please see Annex 1 for portfolio data.

Figure 3: Regional distribution by investment volume

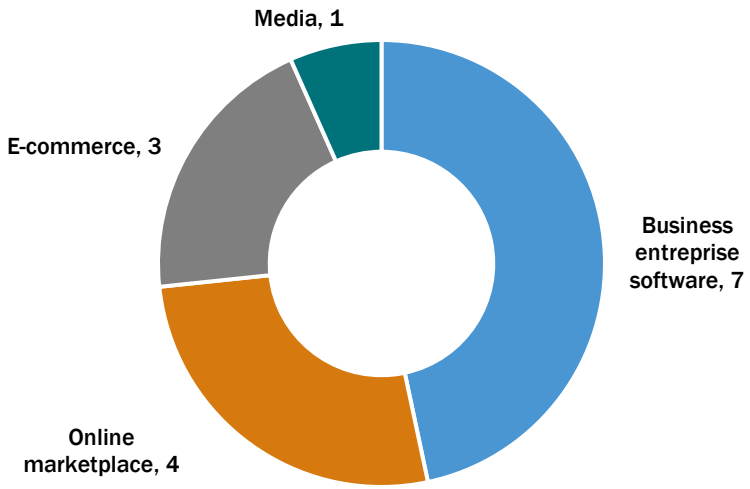


Source: EvD elaboration based on DTM data

14. **VCIP I investments were aligned with the objective of providing equity to early- and growth stage companies and mostly concentrated in one of the sub-sectors initially envisaged.** Under the VCIP I, the Bank invested in seven companies that develop business enterprise software (automation of contracts, survey tools, scheduling, whiteboard applications, video conferencing), four online marketplaces (job classifieds, travel, shared transportation and images), three e-commerce platforms (fashion and homeware) and one social, content-driven media platform. The approval document of the VCIP I defined technology sectors in which it envisaged investing as "software and web services; semiconductors and materials; communications, mobility and media; … cleantech." According to this classification, thirteen companies fall under software and web services and two companies fall under communications, mobility and media. There have not been any investments under semiconductors and materials and cleantech (Figure 4).

15. **Finally, in alignment with the investment criteria set by the approval document, 12 of the companies were in the early stage whereas 3 were in the growth stage.** These companies were all loss-making at the time of the initial VCIP investment. Seven of them had revenues of less than €2 million, four had revenues between €2-10 million.

Figure 4: Number of companies invested in by sector



Source: EvD elaboration based on DTM data

2. Evaluation questions and methods

2.1. Evaluation objectives

16. **EvD included the evaluation of VCIP I in its work programme, as it is ready to be evaluated and there is high demand among Board members.** Additionally, the findings and recommendations of the evaluation will inform the implementation of the Bank's on-going and recently introduced interventions in VC. At present, the VCIP II is underway with 12 active projects. Additionally, the Bank put in place a €120 million Venture Debt Framework in February 2021 and a €250 million Venture Capital Investment Programme III (VCIP III) in February 2022.

17. **The relevance of the evaluation will remain high going forward.** In September 2020, Bank shareholders unanimously agreed that digital transition needed to be one of the three crosscutting themes of its SCF. Accordingly, in October 2021, the EBRD Approach Paper for Accelerating the Digital Transition (BDS21-122) envisaged that the Bank would extend the VCIP and expand its operations in the Western Balkans, the Southern and Eastern Mediterranean (SEMED), and Early Transition Countries (ETCs). More generally, equity investment features prominently in the SCF.

18. **The evaluation team anticipates that the findings from the evaluation will be relevant for the Board to, among other things, acquire a comprehensive view of the VCIP and inform decision making about equity investments more generally.** For Management, the evaluation will help take stock of the results and inform the implementation of the on-going facilities as well as the design of future facilities.

19. **This evaluation covers all 15 projects that the Bank invested in under VCIP I.** In some instances, and where relevant, the evaluation refers to the attributes of the VCIP II and VCIP III, however they are not within the scope of the evaluation.

2.2. Evaluation questions

20. **The evaluation will answer the overarching question of the programme's progress towards its core objective.**

21. **To what extent did the VCIP support the development of technology innovation and its commercialisation and promote VC investments in EBRD economies where there are scarce financing options for early- and growth stage technology companies?**

22. **The evaluation will divide this overarching question into three specific evaluation questions (EQs).**

23. **EQ1: To what extent did the objectives and design of VCIP respond to the needs and priorities of local companies, the VC ecosystem, and its stakeholders?**

24. **This entails the relevance and appropriateness of the inputs that the VCIP put in place to address the challenges identified at the outset.** This includes a review of the main design

parameters of the VCIP and an assessment of their fit, given the specificities of local markets. This review and assessment look at the coherence (complementarity) of the VCIP with past and on-going EBRD interventions in VC, including the Bank's indirect VC investments. Financial and non-financial additionality is covered under this question as well.

25. **EQ2: To what extent did the VCIP contribute to the development of technology companies via successful exits and increased availability of VC financing in EBRD economies?**

26. **First, this is an inquiry about the extent to which the VCIP managed to deliver its ultimate output of successful exits and then an assessment of the incremental contribution of exits to the expected outcomes** -- the expansion of the local VC ecosystem and supporting competitiveness through innovation. This also acknowledges the difficulty of attributing changes in the VC ecosystems or country-level competitiveness to a few successful (or unsuccessful) exits of the Bank.

27. **EQ3: To what extent was the VCIP design and delivery efficient?**

28. **This is about the efficiency of the VCIP along the dimensions of deployment of funds, selection of target companies, their innovative and financial performance, and the VCIP I's overall financial performance.** Additionally, the evaluation reviews the governance of the VCIP in terms of its contribution to efficiency. This includes the availability of in-house expertise, due diligence and approval processes, relations with clients, monitoring and reporting, incentive structures, and engagement with other market players.

2.3. Methods

29. **The evaluation was grounded in a mixed-methods approach combining qualitative and quantitative data collection and analysis and relied on the following research tools**: a background document review, an analysis of the portfolio, anti-portfolio and market data, semi-structured interviews and country case studies.

30. **Document review:** The evaluation team conducted a review of the Bank's internal documentation that included, among other things, approval documents for all three VCIP programmes, project and portfolio level monitoring reviews, minutes of the External Advisory Committee and available records in the Deal Tracking Module as well as VCIP I-related communication materials produced by the team. This was complemented by an extensive review of external documentation covering, among other things, academic and grey literature from the VC domain with a particular focus on EBRD economies, and drawing on sources produced by other IFIs (e.g. relevant evaluations and documentation on their direct VC facilities), academia, national authorities/agencies, industry organisations as well as the private sector including VC pundits, the financial press and VC market participants (e.g., reports produced by VC funds).

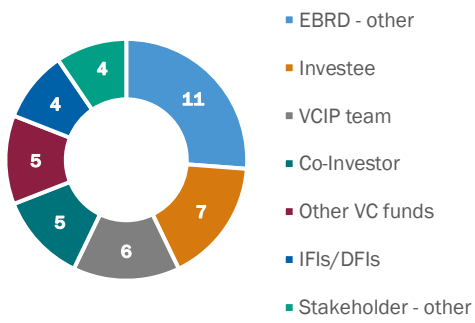
31. **Portfolio, anti-portfolio and wider market data analysis:** This analysis focused on the profiles and performance of the VCIP portfolio companies in which the Bank invested directly and those it considered but did not invest in. It was further supplemented with an examination of the portfolio of the Bank's indirect VC investments. Market level data analysis drew heavily on the Invest Europe data and was complemented by commercially available data from Dealroom – both for the analysis of the market context and the construction of the database for the anti-portfolio

analysis. An investor's anti-portfolio are the deals they pursed but did not invest in, either of their own volition or because they were shut out by other investors.

32. **Case study:** To add depth and breadth to the analysis for selected aspects, the Evaluation team conducted a deep-dive review of the evolution of the Polish VC ecosystem, with a particular focus on the structural changes throughout the 2010s and the continuous fit of the VCIP I.

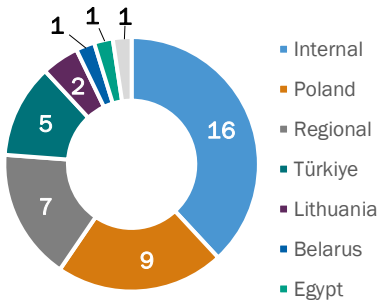
33. **Semi-structured interviews:** The evaluation conducted 42 semi-structured interviews including with the VCIP team and other relevant EBRD units, representatives from seven investee companies (mostly co-founders), four QCIs, six local VC funds that did not co-invest alongside EBRD, representatives of three IFIs (e.g. ADB, IFC and FMO) that also have run direct VC facilities and other stakeholders. The institutional and geographical composition of interviewees appear in Figure 5 and Figure 6.

Figure 5: Institutional composition of interviewees



Source: EvD

Figure 6: Geographical composition of interviewees



Source: EvD

2.4. Limitations

34. **There have been several important limitations to the evaluation.** First, the evaluation team interviewed 7 out of 15 companies but was not able to interview any of the 5 companies that were written-off – a distinct subset of investees. Second, the evaluation team was able to consult only 4 out of 36 co-investors, which included only one from developed markets. These limitations are due to the lack of access to these investors' contact details and the perception of Management that EvD's direct consultation of companies and co-investors would represent a major risk in projecting an image of EBRD as a burdensome VC investor whose practices are unaligned with the lean and nimble VC sector.

35. **It is likely that limited numbers of interviews and an imbalanced composition of interviewees across these dimensions restricted the representation of certain viewpoints and introduced some risk of bias**, including the following, among others.

- how Tier 1 or Tier 2 VC funds perceive the EBRD brand in the market
- how EBRD manages the write-off process
- what EBRD factors contribute to the failure of the investees
- how EBRD enforces liquidation preferences

36. **The Evaluation team addressed these shortcomings, to the extent possible**, by conducting interviews with other active market players and stakeholders.

37. **The following sections of the report are structured as follows:** As a response to EQ1, the report assesses the relevance and coherence of the VCIP I in Section 3. In Section 4, VCIP I effectiveness is analysed. In Section 5, the report addresses EQ 3 and assesses efficiency. Lastly, Section 6 summarises the insights from the evaluation and proposes recommendations.

3. To what extent did the objectives and design of the VCIP respond to the needs and priorities of local companies, the VC ecosystem, and its stakeholders?

38. **EBRD was the first MDB that chose to set-up a stand-alone direct VC fund/programme – VCIP I – with an articulated investment strategy, a separate governance structure and a dedicated team.**[1] In view of the Evaluation team, with the benefit of hindsight, this was a bold decision that required vision and leadership, and fit well in EBRD's desired DNA of a nimble and fast adapting MDB that strives to stay close to the markets.

39. **The rationale to establish a direct VC programme instead of, for instance, relying solely on indirect VC operations already run by the EBRD back then hinged on several propositions.** In the following, the evaluation looks at these propositions and validates them. Firstly, there were just a few VC funds in most of the economies -- often first-time and inexperienced -- that could support emerging technology companies. This in turn made an indirect VC approach unfeasible in many instances (Section 3.1 and Section 3.2). Hence, the Bank perceived direct VC combined with EBRD attributes of financial and non-financial additionality to be a meaningful tool to help in the development of local VC ecosystems (Section 3.3). Additionally, the introduction of the KEI in 2011 justified moving away from ad hoc and sporadic high-risk equity investments to establishing a dedicated venture programme that could systematically promote competitiveness and innovation (Section 3.4 and 3.5). Lastly, cost considerations of running direct vs indirect VC also played some role (Section 3.5).

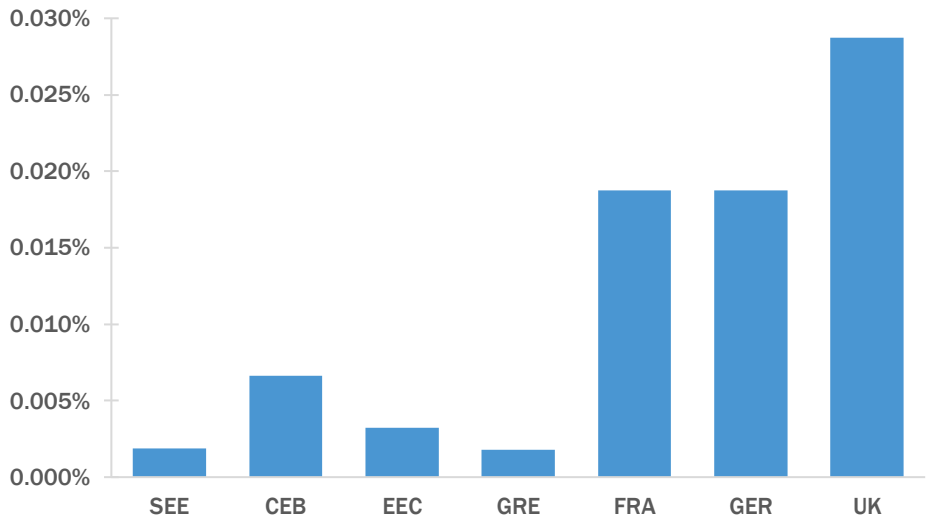
3.1. VCIP I responded to a financing gap in EBRD economies

40. **Prior to the inception of the VCIP I, the VC ecosystems in EBRD economies were either non-existent or nascent.** The share of risk financing for the commercialisation of innovative businesses in the overall economic activity was very low (and remains so in a number of these economies). Bootstrapping by start-ups was prevalent, and whenever entrepreneurs managed to access capital, it was typically sourced locally, of small ticket size and often relied heavily on public funding.

41. **As a ratio of GDP, in 2011, venture financing that the entrepreneurs in developed European markets attracted was 5 to 10 times higher than that in Eastern Europe and the Caucasus (EEC), Central Europe and the Baltic states (CEB), South-eastern Europe (SEE) and Greece (Figure 7).** Prior to the approval of the VCIP I in 2011, the total VC that the entrepreneurs in EBRD economies attracted varied between approximately €2 million in EEC and €80 million in CEB. Corresponding figures for the United Kingdom, Germany and France were €808, €725 and €505 million respectively.

[1] IFC began making some direct VC investments from late 2000s onwards on a case-by-case basis.

Figure 7: VC investments as a share of GDP (2011)



Source: EvD elaboration from Invest Europe data

42. **The gap between EBRD economies and developed European markets was even wider in later-stage VC financing.** In this segment, as a ratio of GDP, in 2011, venture financing was 10 to 100 times higher in developed European markets than in EEC, CEB, SEE and Greece. At this stage, the entrepreneurs in EBRD economies attracted slightly more than €33 million in 2011. Equivalent figures for the United Kingdom, Germany and France were close to €1.2 billion.

43. **With respect to fund raising, there was no fund raising in EEC, SEE or Greece in 2011.** Total VC fundraising in CEB between 2007-11 was slightly more than €120 million per year. However, 40 per cent of this amount came from government agencies. Additionally, 55 per cent of the capital raised by domestic funds between 2008-11 came from the country of the fund. The remaining was provided from within Europe; contributions from outside Europe (e.g., US VC investors) were close to nil. During the same period, VC funds in the United Kingdom, Germany and France raised €2.6 billion per year, of which 15 per cent came from government agencies.

44. **Similarly, VC ecosystems in Türkiye and Egypt were in nascent form.** Venture financing at Series A and B rounds in these countries was less than €20 million in 2011. However, data for Türkiye and Egypt are not comparable with the rest of the figures provided. The data source for EEC, SEE, CEB and Greece is Invest Europe[2], and Dealroom for Türkiye and Egypt[3].

3.2. The envelope and ticket size were appropriate for impact

45. **The €100 million allocated to VCIP I was a considerable amount that could have a meaningful impact if channelled into a handful of EBRD economies.** The Bank aimed to deploy

[2] https://www.investeurope.eu/
[3] dealroom.co

between €6-8 million per company. Unlike seed financing, offers of this ticket size were scarcely available in the local markets.

46. **The dedicated amount of €100 million corresponded to nearly 50 per cent of total later stage venture financing available in the EBRD region[4] between 2008-11.** During that period, the total amount invested in later stage venture in CEB, SEE, EEC and Greece was €206 million. A total of 109 companies attracted this financing. Hence, the average investment per company was approximately €2 million. The vast majority of interviewees also confirmed that, particularly for the first half of the 2010s, the scarcity of large ticket sizes was a major bottleneck for early and growth stage technology companies in EBRD economies.

3.3. The programme brought strong additionality, especially financial

47. **Financial additionality of the VCIP I at the portfolio level was strong as markets offered little/no venture risk financing opportunities in Bank economies, especially in the first half of the 2010s.** In particular, the VCIP I focus on Series A and B rounds with relatively large ticket sizes filled a very evident financing gap on the markets. Non-financial additionality was also sound and related, among other things, to risk mitigating attributes of the EBRD as well as to its perceived strengths in supporting investees.

48. **The VCIP I focused on Series A and B rounds and offered larger ticket sizes that were otherwise scarcely/not available in the local markets, without exception.** EvD found one transaction where the VCIP I financing was effectively the only available option for the founders, after the company had explored systematically an interest of US and regional European investors, while in a few other cases it would have been very challenging to find alternative investors. In two concrete cases of companies that had already attracted considerable attention from investors and eventually turned out to be highly successful, the founders felt that VCIP initial and follow-on financing were helpful but not essential. Generally, the financing gap for Series A and B rounds was even greater than for pre-seed/seed rounds, and even more acute in the first half of the 2010s. Although the availability of financing on more developed markets like the Baltic states, Poland and Türkiye has increased materially over recent years, it often remains a constraint.

49. **The Bank's offer of "direct" VC investments has been often perceived as being more "patient capital" than what a typical private VC fund might normally offer.** Unlike for a typical private VC fund, there are no Limited Partners (LPs) in the VCIP I set-up. Therefore, the VCIP team is not subject to the pressures that LPs generally put on General Partners (GPs) to realise their investments swiftly. Being patient, on the other hand, may offer advantages to start-ups. In many nascent markets, first-time funds typically had very little time to liquidity e.g., 3-4 years in Poland throughout the 2010s, according to interviews with the Polish Development Fund. Several interviewed investees and QCIs acknowledged that the VCIP team did not initiate/lead discussions on exits, albeit as a minority investor it has been tied to other co-investors. "Patient capital" has been also mentioned in tandem with having a "deep pocket", suggesting that EBRD

[4] EBRD region refers to EBRD economies for which Invest Europe data is available. This corresponds to Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Moldova, Montenegro, North Macedonia, Romania, Serbia, Ukraine, Estonia, Greece, Latvia, Lithuania, Slovak Republic, Slovenia, Poland.

may have a higher propensity to stay in the company through the VC cycles and follow-on with additional investment when needed.

50. **Commonly listed VCIP I attributes of non-financial additionality are related to "political protection", and, to a somewhat lesser degree, a "quality stamp" and "familiarity with the local market".** Initial diagnostics underpinning the VCIP I suggested that a sizable share of the portfolio could have been allocated in Russia given existing market opportunities. Following the first Russian war on Ukraine in 2014, the EBRD took the decision to cease any investments in Russia, implying the recalibration of the investment approach. It was in countries like Russia (and other ex-Soviet Union territories) where EBRD's potential "political protection" attribute would play out most. Similar reasoning appeared in the context of some investments in Türkiye and Belarus. EBRD's commitment as a "quality stamp" was mentioned in the context of the Bank's reputation (rather than the VCIP per se) while "familiarity with the local market" was also relevant for some investees and QCIs, though as one stated, "…familiarity with the region was important, but 5-6 years ago. Now the VC ecosystem in the CEE region is much more mature and well explored".

3.4. Its design did not articulate adequately how it would translate into innovation effectively prioritising financial return

51. **The approval document was too vague in specifying VCIP I's contribution towards innovation.** On the one hand, the investment strategy envisaged explicit targets normally exhibiting a higher degree of innovativeness i.e., patent generation by investees and coverage of cleantech and the semiconductors and materials sectors. On the other, the investment strategy did not assume the technology risk[5], typically more pronounced at the pre-seed/seed stage, did not contain any R&D-related metrics and offered little detail on the channels through which it would occur. As stated in the 2014 Transition Report, "Innovation has associations with high tech and R&D, but innovation is something much broader and encompasses the introduction of any products, services or production processes. The definition of innovation is particularly important in emerging economies because many productivity improvements, and ultimately economic growth, will come from imitation and adapting globally available technologies to local markets." Yet, at the investment strategy level and irrespective of the merit of one approach or another – whether the aim was to focus on "frontier" innovation with high tech and R&D or on more incremental innovation relying on the adaptation of existing business models and technologies – the investment strategy remained ambiguous.

52. **As a result, an inadequate articulation of the kind of innovation desired and the channels through which it would be fostered paved the way to a "specific" interpretation of the investment strategy** – the potential for the financial upside of investments dominated the de facto investment decisions and consequently dwarfed all other considerations, including innovation. As mentioned in one interview, "We did not believe in the transition story without financial results as the strategy needs to produce financial results – and so we did not specify any market application and did not bother about the typology of sectors". Technology innovation (and other metrics) was entirely subordinate to the aim of generating financial return. In this respect, the VCIP approach differed substantially from the approaches taken by other IFIs under their direct VC facilities – in particular, the IFC placed a very strong focus on development outcomes (see Annex 2), perhaps even at the expense of its financial performance. Generally, several interviewed VC investors

[5] And would focus instead on companies with already tested business models (e.g., some revenue and/or strategic partnerships) and ready for commercialisation or already set to expand the market.

challenged the type of direct VC investments an IFI/MDB should and could make, and whether seeking financial return like any other private VC fund is enough. It seemed to me that the EBRD wanted to be in the top tier deals, and overall, the policy was to get into commercially profitable deals, period," or "The direct VC at EBRD has been just another market participant while publicly funded MDBs should do more than just put the money into the eco-system". The financial performance of the VCIP I is discussed in Section 4. Section 5 presents actual results related to the VCIP support of competitiveness through innovation.

53. **That said, the investment strategy envisaged claiming high commercial risk and producing high commercial returns.** Such returns could entice investors in EBRD economies. Therefore, executing the investment strategy successfully could plausibly produce the expected results related to promoting VC investments in EBRD economies. The VCIP I investment strategy entailed, jointly with at least one QCI, supporting early and growth stage technology companies that:

- have a proprietary technology or innovative business model
- are moving away from product development to commercialisation
- have less than US$ 10 million in revenue or a clear path to profitability within 1-2 years, and
- are not in the biotechnology sectors.[6]

3.5. Coherence and complementarity with related EBRD interventions is mixed

54. **The Bank's direct and indirect VC investments appear to work in relative sync with little evidence of duplication or friction.** On the other hand, any potential synergies between the VCIP and the Small Business Support (Star Venture Programme), Fintech Sandbox Initiative, ICT and Digital Hub appear generally untapped.

55. **KEI differentiates the targets and objectives of VCIP I and indirect VC.** The VCIP focuses on co-investing with top tier VC funds and global corporates and developing an extensive network of relationships with co-investors to promote VC investments. Indirect VC investments are done to support early-stage venture capital funds to strengthen the pipeline for later-stage VC funds.

56. **For this reason, VCIP I and indirect VC investments targeted companies at different stages of their lifecycle.** While both arms targeted companies from similar sectors, median investment sizes per investee deployed via indirect VC have been low, at approximately €2 million, compared to €4 million for direct ones. Hence, the risk of overlap between direct and indirect VC operations was low. On the contrary, the VCIP I benefitted concretely from the Bank's investments in these early stage VC funds through sourcing. Specifically, the VCIP I invested in two projects that graduated from early-stage VC funds that the Bank had supported earlier via indirect VC, and three other companies were in its core pipeline. This is not coincidental and the VCIP team has been in regular communication with these funds to strengthen the pipeline.

57. **However, the interaction between the VCIP team and other relevant units in the Bank such as Digital Hub, Star Venture, ICT and Fintech Sandbox remained limited.** The same applies to the Bank's related work on the policy front. Regarding this, two themes emerge consistently from the internal interviews: the VCIP team believed that a certain degree of insulation was desired

[6] VCIP excluded investments in biotechnology sectors due to the specific nature of the investment risks in those sectors.

because the investment philosophies of the VCIP and the rest of the Bank are fundamentally different. From the perspective of the VCIP team, they "would look into a hundred companies and would do less than one company" whereas in the rest of the Bank "people are incentivised by closing transactions". Therefore, "it is very difficult to explain to (the rest of Bank) why (the VCIP team) says 'No' 99 times out of 100." On the other hand, many in the Bank have seen the VCIP "operating in a silo" while they wish to see the Bank's VC operations as "a window that opens to future", perceive it as a space where risk-taking is encouraged and failing is acceptable, and suggest that the VCIP team be more open for internal engagements with benefits for both: other Bank teams, by learning from its experience and informing their overall strategy, and the VCIP team, by bolstering its pipeline (including wider sectorial exposure) and drawing on specific expertise that could add value to its investees, among others. Overall, the Evaluation team was made aware by other Bank units of a number of specific opportunities (e.g., start-up pitching conferences, non-repayable funding available for mentoring entrepreneurs) that could have been clearly relevant for the VCIP team, which took no action.

58. **Yet, while the Evaluation team notes some recent progress, it also believes that it is both desirable and feasible to improve the engagement between the VCIP team and other relevant Bank units without compromising on the efficient delivery by the VCIP team and bearing in mind its limited size.** For instance, VCIP III benefitted from two technical cooperation elements: i) technical advisory in enterprise sales, online marketing, and technology infrastructure to support their growth, and ii) training and support on equal opportunities in HR policies and practices. Star Venture supported the development of the technical advisory and, at present, the VCIP team believes that having this advisory network has been a success to-date. Similarly, technical cooperation on gender equality was also a result of cross-departmental collaboration between the VCIP and Gender and Economic Inclusion teams (Box 1). Neither technical advisory nor training on equal opportunities were part of the VCIP I or VCIP II. However, it is worth emphasizing that both the VCIP II and VCIP III are out of the scope of this evaluation and that these examples are only illustrative.

Box 1: Gender additionality in VCIP III

VCIP III helps its portfolio companies achieve higher gender standards and introduce equal opportunities action plans to address gender inequality in technology sectors. Women are under-represented in tech and STEM university courses and occupations. This is due partly to self-selection but may also be a consequence of gender-blind or gender-neutral HR policies and practices applied by tech companies.

This is achieved through training and support on unconscious gender bias and equal opportunities in HR policies and practices. Concurrently, the VCIP portfolio companies are required to establish a sex-disaggregated baseline by collecting and reporting gender-related data to the EBRD that includes the share of:

- women-owned/led investee companies in the VCIP portfolio (in terms of number of investments)
- female employees in VCIP portfolio companies.

This technical cooperation is funded under the Gender and Economic Inclusion TC Framework (€50,000) by SSF. This TC project has not been undertaken yet.

4. To what extent did the VCIP contribute to the development of technology companies via successful exits and increased availability of VC financing in EBRD economies?

59. **The VCIP I aimed at two high-level outcomes.** First, it sought to support the development of the VC ecosystem in EBRD economies. Second, it sought to spur the development of technology innovation and commercialisation. As depicted in the VCIP I logic model (see Figure 1 above), the Bank expected to attract new co-investors in EBRD economies and support investees via Board representation (Section 4.1), demonstrate the financial success of its portfolio (Section 4.2), make a positive impact at the company level (Section 4.3) and obtain highly profitable exists making local VC ecosystems more appealing (Section 4.4). In turn, these changes would ultimately contribute to increased competitiveness through innovation (Section 4.5). In the following sections, the evaluation tests this hypothesis.

4.1. Founders and local co-investors value the presence of VCIP at the cap table

60. **Under VCIP I, 36 QCIs invested a total of €217 million.** Of these, 44 per cent (16) were new with no prior exposure to a country of investment. Further, 61 per cent (22) made additional investments in the EBRD region outside the VCIP. Additionally, as part of follow-on financing rounds, the VCIP team aimed at supporting companies in attracting new co-investors. In 47 per cent of the follow-on rounds, there was a new co-investor, though it is challenging to capture the extent to which this effect can be attributed solely to the EBRD.

61. **The VCIP team contributed to the fundraising efforts of the companies to varying degrees.** This depended on the stage of investment and whether the VCIP was the lead investor or not. Typically, the VCIP team contributed more to subsequent fundraising if it invested at an early stage as a lead investor. Therefore, it is not straightforward to quantify the share of fundraising that could be attributed to the VCIP team. As points of reference, the associated transition objective stated, "Capital invested by Qualified Co-investors to be at least equal to amounts invested by the Bank under VCIP," and the approval document stated, "the VCIP has the potential to achieve the mobilisation of up to €500 million for investments in innovative companies".[7] Hence, the approval document expected the ratio of Qualified Co-investments to amounts invested by VCIP to be between 1x and 5x. The realisation has been 3.1x (€217 co-invested vs. €68 million invested by the VCIP team), though it is difficult to gauge the share of it actually genuinely mobilised by VCIP.[8]

[7] Please see BDS11-217 (Rev 2).

[8] With respect to mobilisation via indirect VC funds, the Equity Funds Team reported to the Board the following (CS/FO/22-37): "The Bank has supported 22 dedicated venture capital and technology funds (including under ESIF) representing circa €320m aggregate financial commitment from the Bank and circa €1.6bn in total capital (i.e., including amounts mobilised from other investors)." That corresponds to a ratio of 4x. However, again, drawing inferences and making comparisons are challenging. For instance, the 2016 EIF

62. **The QCIs and the VCIP team supported the portfolio companies through the transfer of skills and know-how via Board representation.** The added value of the VCIP team specifically appears overall to be at par with other QCIs. Interestingly, the approval document envisaged that this would be typically done by Board members put forward by QCIs who would play a more "hands-on" role rather than the VCIP team. This was because, initially, the Bank did not have a track record of leading investments in technology sectors and was willing to capture the experience and benefit of working alongside commercially oriented QCIs. Eventually, however, out of 15 investees, the VCIP obtained voting Board seats in 10.[9, 10]

63. **Box 2 details selected findings on relative contributions of the VCIP Board representatives to the development of investees.**

Box 2: VCIP Board members – relative value added to investees

Overall, the quality of inputs of the VCIP Board representatives was perceived as high and appreciated by company founders and QCIs alike, albeit in the view of the former, they did not generally differ much from those offered by Board members of QCIs. Typically, inputs expected from a Board member would differ from case to case and be a function of the level of ownership in an investee and the relative experience of other co-investors (e.g., a highly experienced VC fund like Sequoia versus a local first-time fund), among others.

Yet interviews with several company founders and QCIs to which EvD had access reveal some patterns.

1. First, VCIP Board members appeared to have relative strength in areas such as budgeting and cost optimisation, enhancement of corporate governance structure and practices in investees, and inputs around general business strategy. However, despite some exceptions, they appeared to lag behind other QCIs in their ability to provide commercial introductions (e.g., due to smaller networks than private VC funds), and to a lesser extent, team building capacity.
2. Second, a few founders felt that VCIP Board members could have been more involved and pro-active, especially when the business experienced major changes and a more timely and "hands-on" approach would have been particularly useful. The VCIP team was seen by some companies and QCIs as "thinly spread", and this impression was reinforced further after the departure of some senior VCIP team members.

Note that the analysis of relative added value of the VCIP Board members was constrained by reduced EvD access to investees and QCIs e.g., EvD did not have access to companies that were written off and therefore could not interview them.

Evaluation of its indirect VC investments found that on average, a 1 per cent increase in EIF provided capital in a region led to a 0.89 per cent increase in other investor activity in the same region three years later. In addition, the positive effect of the EIF activities was bigger in geographic areas characterised by less developed VC markets.

[9] Comparing the financial performance of portfolio companies with and without EBRD voting Board seats and drawing meaningful inferences is challenging. In the first investments the EBRD did not have a voting Board seat and these investments were in Russia. Later, these projects failed, mainly, because of the war on Ukraine and the global pandemic.

[10] In the early phases of the VCIP I, during 2012 and 2014, the VCIP team comprised three FTE bankers. Hence, assuming an active role at the boards of portfolio companies could have stretched available resources. However, when the team later reached six FTE bankers, active board representation was not a concern anymore resource-wise.

4.2. Financial performance of the portfolio is strong

64. **The financial performance of the VCIP I as it stands now is strong, particularly given its first-time VC fund nature.** Based on net fair value, the latest available (year-end 2022) money multiple is 2.7x. The latest available data on the net internal rate of return (IRR) from September 2021 was 27 per cent. The expectation at the approval was a gross IRR of 20 per cent. According to Invest Europe's latest benchmarking report, as of year-end 2021, the net IRR of European VC funds by vintage years 2011, 2012, 2013 and 2014 are 40 per cent, 28 per cent, 28 per cent and 30 per cent, respectively.[11] Unfortunately, Invest Europe's benchmarking report for 2022 has not yet been published. Therefore, the evaluation cannot report money multiple and IRR figures of European VC funds for 2022.

65. **However, the final rate of return still depends largely on two pending exits, with some downside risks due to a recent fall in valuations on the markets.** Two of the four remaining companies are about to complete their eighth year in the portfolio. Therefore, time-to-liquidity stands out as an area of concern.

66. **Under the VCIP I, the Bank has exited four companies profitably, written off four and transferred shares of one company to another fund (Box 3).** Four companies remain in the portfolio. According to the forward-looking risk classification of the equity risk review of FY2022, two of these four are "outperforming", while the remaining two "need attention".

Box 3: VCIP I – force majeure and write-offs

The Evaluation team was unable to interview the (co)founders of the VCIP I portfolio companies that were eventually written off, which limited the scope and valuable insights from this analysis against the initial intentions.

Out of five investments that failed (four pure write-offs and one transfer of shares), three companies were based in Russia, one in Slovenia and one in Türkiye. Four out of the five operated in online marketplace/e-commerce sectors, which are highly sensitive to uncertainty in the business environment and swings in economic cycles.

Risk-taking and some failures are inherent and unavoidable threads of every VC business, including the most successful ones. Overall, in the view of the EvD, it is fair to argue that some material factors underpinning write-offs were beyond the team's control. Specifically, Russia's first war on Ukraine in 2014 and subsequent international sanctions imposed on Russia along with EBRD's decision to cease any investment and its eventual withdrawal from all investment dealt a major blow to Russian portfolio companies. The COVID-19 pandemic that effectively brought the tourism industry to a standstill affected the Slovenian start-up that operated in the transportation sector severely, although the company had a prior history of underperforming business plans.

67. **Additionally, the specific analysis of the follow-on investments done by the VCIP team indicates that the deployment of capital across portfolio companies was effective.** The portfolio companies that attracted more VCIP I follow-on financing were those that performed better (ex

[11] Please see Invest Europe's *The Performance of European Private Equity Benchmark Report 2021* (published June 2022) for methodology. The data used in this paragraph comes from Fig. 64: IRR of European Venture Capital funds by vintage year (p. 31) of this report.

post). In turn, only 21 per cent of the VCIP I follow-on financing (€4.8 million out of €22.7 million) went to five portfolio companies that currently exhibit a money multiple of nil.

68. **Nevertheless, if the Bank decides to exit its portfolio companies today, VCIP I's time-to-liquidity would be 8.7 years.** As of 2021, the average time-to-liquidity of all European VC funds is 7.6 years and 4.95 years for all late and multi-stage VC funds.[12] Note still that to calculate the time-to-liquidity, the evaluation team assumed conservatively that the VCIP I started to invest in May 2014. This is because between 2011-13, the internal procedures were not conducive to deploying direct VC.

69. **High time-to-liquidity is not because the VCIP acts as patient capital.** Time-to-liquidity for VCIP I has been particularly long mainly because of two portfolio companies. For these companies, the VCIP team, alongside other co-investors, expects the net fair value to increase in the coming months and/or years. Therefore, the VCIP team does not perceive an exit via a secondary sale for these companies to be a likely course of action from a commercial perspective, in the short term. At the same time, the Evaluation team believes that the Bank's on-going shareholding in these companies needs to be justified by other factors, such as additionality, on top of commercial considerations. And given the current size and global reach of these companies such additionality is very challenging to demonstrate.

4.3. VCIP I companies outperform comparators

70. **The companies in which the Bank invested as part of VCIP I outperformed companies that were part of the core pipeline in which the Bank did not ultimately invest.**

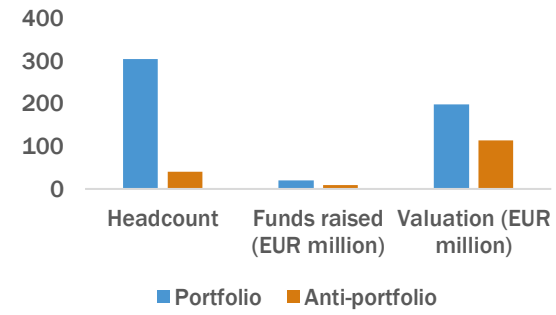
71. **The External Advisory Committee green-lighted 45 projects at the concept stage.** The Bank invested in 15 of these companies whereas the remaining 30 received no Bank financing. These 30 companies constitute the anti-portfolio. Bringing together data from Deal Tracking Module and Dealroom, the Evaluation team constructed a dataset that entails data on headcount and fundraising of these 45 companies before and after their involvement with the Bank.

72. **Based on this basic pre-post analysis, on average, an investee that benefited from VCIP I grew its headcount by 305 and attracted an additional €21 million of financing on top of the Bank's financing.** For comparison, the companies that passed the concept review stage but in which the Bank did not invest grew their headcount by 40 and attracted an additional €5 million (Figure 8).[13] Three outliers (Trendyol, DocPlanner and PandaDoc) in the portfolio of 15 drive these differences. Peak Games is the only outlier (out of 30 companies) in the anti-portfolio. This indicates the effectiveness of project selection and investment.

[12] Please see Invest Europe's *The Performance of European Private Equity Benchmark Report 2021* (published June 2022) for methodology. The data used in this paragraph comes from Fig. 56: Maturity of active European Venture Capital funds, by stage of development, Fig. 57: Average time-to-liquidity of all, early-stage and late/multi-stage (European Venture Capital funds) and Average time-to-liquidity of all, active and liquidated (European Venture Capital funds) (p. 29) of this report. The time-to-liquidity measures the average time between a cash outflow from a fund and an equivalent cash inflow. It is a proxy for the holding period of funds, with the limitation that this measure does not differentiate an actual exit from a dividend recapitalisation.

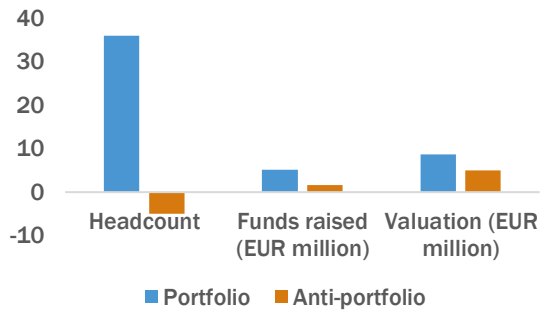
[13] The figures report pre-post differences in valuations as well. However, there are cases for which data on valuations is not recent or is missing. Hence, although the findings on headcount, funds raised and valuation are consistent, the credibility of pre-post differences in valuations is limited.

Figure 8: Pre-post changes - Average



Source: EvD analysis

Figure 9: Pre-post changes - Median



Source: EvD

4.4. The programme contributed to the development of VC ecosystems in a number of cases

73. **Apart from the obvious method of channelling VC financing that was in (very) short supply in all EBRD economies, another way of supporting nascent local VC ecosystems, while not articulated explicitly in the approval document but crucial according to senior VCIP staff, was "building the ecosystem by big bang exits".** In essence, investments in highly successful start-ups that would subsequently achieve high valuations and eventually offer exceptional financial returns to exiting investors would then attract new investors and entrepreneurs, ultimately spurring the growth of the VC ecosystem.

74. **The evaluation revealed that for the most potentially profitable investments in the VCIP I portfolio, in particular DocPlanner and Trendyol, there is evidence that they contributed to the development of the Polish and Turkish VC ecosystems respectively, although the magnitude of the effect is hard to capture and should not be overstated.** For instance, DocPlanner has been commonly mentioned among just a handful of candidates for the first unicorn[14] in Poland. At present, the company connects 45 million patients with 140,000 active doctors in 12 countries each month. The Polish Development Fund (PFR), a state-funded DFI with one of the largest VC portfolios in the country and a wide range of market-building activities, has been using the example of DoCPlanner in its promotional materials. The company has also featured heavily in various research focused on the Polish VC ecosystem – including one published by the largest Polish think-tank specialising in VC – Start-up Poland. More broadly, all local and regional VC funds interviewed by the EvD were very familiar with the company (and the fact that the EBRD had invested in it). See Annex 3 for more details.

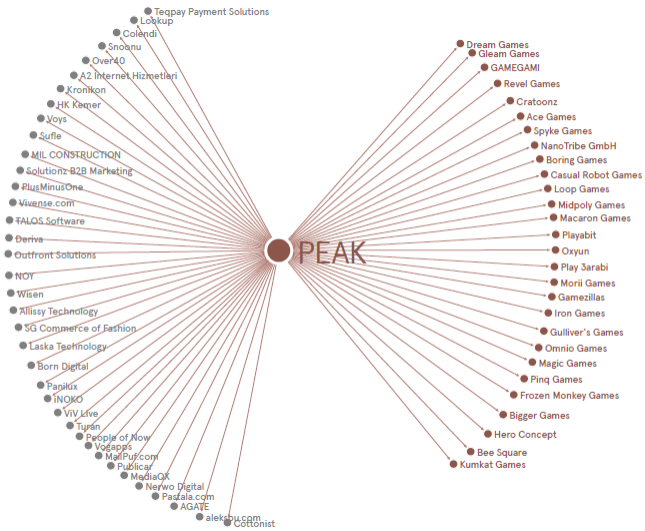
75. **Similarly, many consider Trendyol to be the prime mover of the online retail platforms that started to emerge almost a decade ago from Türkiye.** Following VCIP's investment in Trendyol in 2014, the Bank, jointly with IFC, went on investing in Hepsiburada.com – another e-commerce platform and competitor of Trendyol – and then, later, indirectly in Getir – another Türkiye-based company focusing on on-demand delivery services for grocery items and a courier service. The

[14] A start up with a valuation over €1 billion.

most recent valuations of Trendyol, Hepsiburada.com and Getir are US$ 16.5 billion, US$ 3.9 billion and US$ 12 billion respectively.

76. **These companies supported the development of the VC ecosystem as factories of founders.** For instance, a number of Trendyol graduates contributed to the development of at least two very successful gaming start-ups: Peak Games, which was part of the VCIP I core pipeline, was acquired by Zynga in June 2020 for US$ 1.8 billion, and Dream Games raised US$ 255 million at a valuation of US$ 2.75 billion in January 2022. Later, Peak's 80 former employees founded 65 start-ups in total, 37 of which are not gaming start-ups. Briefly, while it would not be accurate to draw a direct line between the VCIP's presence and the development of the VC ecosystem in Türkiye, the VCIP, in combination with the Bank's indirect VC and PE investments, has supported founders who made a lasting mark on the VC ecosystem in Türkiye (Figure 10).

Figure 10: Peak Alumni



Source: Courtesy of startups.watch

77. **Keeping a close eye on any potential environmental and social issues that could come up while the company is in the portfolio is key (including with Board representation).** Moreover, there is a potential risk for the successful companies to deepen existing social inequalities. EBRD's environmental and social due diligence for projects under VCIP is nominal. ESD assess associated risk and its scale as low and classify these projects as Category C, which means that the environmental and social diligence and monitoring is minimal. This is because the investees are typically small IT-based office companies. While this approach is fit for purpose, these companies have the potential to evolve from small IT-based office operations with 50-60 headcount to delivery giants with thousands of contractors (Box 4).

Box 4: Labour dispute in Trendyol

In August 2018, the VCIP realised its first exit. Trendyol was sold to the Alibaba Group netting 4.1x MM and 42 per cent IRR. At the time of the exit, total full-time employment at Trendyol

was slightly more than 800. According to the Anadolu Agency, the figure including contractors exceeded 12 000 as of October 2020.[15]

In January 2022, independent delivery contractors of Trendyol, Türkiye's largest e-commerce platform, rejected the pay raise offered by the company and stopped work across the country.

The company announced an 11 per cent pay increase rate for 2022 on 24 January, whereas official figures place inflation at 36 per cent in Türkiye. An independent research institution, ENAGrup, announced that the actual rate was 82 per cent.

This prompted thousands of couriers to take action on 26 January. Hundreds gathered in front of Trendyol headquarters in the Maslak district of Istanbul and announced that they would stop work indefinitely if their demands were not met. In addition to a 50 per cent raise, couriers demanded a reduced workload, less work pressure from the company, and guarantees that employees who joined the wildcat strikes would not be sacked.

Additionally, thousands of couriers organized via social media and refused to deliver products in cities all over the country, including Istanbul, Izmir, Bursa, Antalya, Samsun, Tekirdağ, Eskişehir, Muğla, Diyarbakır and Siirt. Couriers gathered in city squares with car convoys and made public statements. After mass protests, a press statement was also made in front of a national TV station.

Source: BBC Turkce, https://www.bbc.com/turkce/haberler-turkiye-60235440

78. **In addition to concerns related to labour conditions, and specifically the classification of riders as "self-employed", the Bank might consider integrating provisions related to the mitigation of other social risks associated with its VC investments in its Environmental and Social Policy.** These include, among other things, the responsible use of AI (i.e., avoidance of human bias, discriminatory outcomes, and potential job displacement), privacy and personal data collection issues. At present, there is a comprehensive EU regulatory proposal that classifies AI applications under four distinct categories of risks[16]:

1. Unacceptable risk: these use-cases will be banned (e.g., social scoring).
2. High-risk: these will be subject to quality management and conformity assessment procedures (e.g., CV sorting software, robot-assisted surgery, credit scoring, facial recognition systems).
3. Limited risk: these will be subject to minimal transparency obligations (e.g., chatbots).
4. Minimal risk: these will not face any additional provision (e.g., spam filters).

79. **Going forward, the Bank should be prepared to support its portfolio companies operating in high-risk domains (e.g., healthcare, banking and insurance, transport, employment) in adopting a proactive approach before this regulation is implemented.**

80. **Finally, the VCIP I did not impact the VC ecosystems with exits via initial public offerings.** The approval document stated, "Exits will be realised alongside VCIP co-investors primarily through the trade sale of the companies or initial public offerings on equity exchanges"; "The Bank may explore the potential to sell the VCIP on a portfolio basis into the private equity secondary

[15] Trendyol, 2020. Trendyol'dan son 3 ayda 1.000 kisilik istinhadam. Available at: https://www.aa.com.tr/tr/sirkethaberleri/hizmet/trendyoldan-son-3-ayda-1000-kisilik-istihdam/660338
[16] EUR-Lex, 2021. Proposal for the Regulation laying down harmonised rules on AI and amending certain union legislative acts. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0206

market." Nevertheless, there have not been any initial public offerings under the VCIP I. All of the exits have been via trade sale because listing requires a certain level of scale that the vast majority of the companies do not reach. Additionally, local exchanges are not liquid enough and if investors advise listing, that would be in the United Kingdom, Germany or the United States. That said, all trade sales were strategic acquisitions by important players within their respective sectors.

4.5. Not investing in cleantech, semiconductors and materials limited the potential impact of VCIP on innovation

81. **Despite an explicit objective of the VCIP I to focus on four innovative technology sectors, there was no single investment in two of them that arguably had the highest innovativeness potential:** semiconductors and materials and cleantech. Instead, all 15 companies operated in broadly defined sectors of e-commerce, on-line marketplace and business enterprise software (see Figure 4 above) with few examples of investments being merely a close replication of business models that already existed in more developed markets e.g., on-line media platform[17] or an on-line search engine for long-haul transportation[18]. From one point of view, unlike in more developed markets, the available pipeline of highly innovative and bankable projects in EBRD economies back in the 2010s may certainly have created some constraint. However, even if they are very few in number, examples of such projects did exist in the core pipeline of VCIP I. Being a first-time fund, operating as part of an MDB – an organisation with an inherently lower risk appetite, and several pre-requisites of more tech-oriented investment strategy – added further challenges. On the other hand, a number of interviewees raised doubts as to whether a mandate of a direct VC fund run by an MDB should be almost exclusively driven by financial upside considerations or include more scope to take up technology risk.

82. **VCIP I expected the number of patents filed to equal the number of companies in the fund's portfolio, that is, 15 patents.** However, at the time of writing this report, none of the VCIP I companies had filed a single patent application. That stands in contrast with the argument in the approval document which, based on a publication of the European Venture Capital Association, claimed that VC-backed companies promote innovation because on average, a VC-backed company applies for 14 patents and is awarded 8.

83. **The VCIP I portfolio companies' performance in other dimensions of innovativeness appears to be lagging as well.** The Bank has a standard and comprehensive list of indicators to measure the knowledge economy and innovation at the country level.[19] Some of these, such as university-industry linkages and scientific publications, apply to the company-level as well. The evaluation team failed to identify any university-industry linkages in the VCIP I portfolio or publications in scientific and technical journals. Concurrently, it found no evidence of payment for intellectual property and meaningful R&D activities carried by investees. An alternative to assessing and capturing impact on innovation might be to look at market disruption and the reduction in the market share of inefficient incumbents. IFC's Direct VC Sector Framework – as part of its Anticipated Impact Measurement and Monitoring (AIMM) system – applies such a perspective. Again, the Evaluation team did not find any evidence indicating that the VCIP I portfolio

[17] Onedio, 2023. Available at: https://onedio.com/
[18] GoOpti, 2023. Available at: https://www.goopti.com/en/
[19] EBRD, 2023. Intranet – Knowledge Economy. Available at: https://intranet.ebrd.com/knowledge-economy-index

companies compete against inefficient incumbents and reduced their market share. Box 5 illustrates the different indicators potentially used for measuring company-level innovativeness.

Box 5: EBRD's KEI and IFC's Direct VC Sector Framework

The EBRD constructed an index that measures the state of the "Knowledge Economy" development in 46 economies – 38 economies where the EBRD invests and 8 OECD comparator countries. The index contains 38 indicators structured in four pillars: (1) institutions for innovation; (2) skills for innovation; (3) the innovation system, and (4) the ICT infrastructure. Each of the four pillars has 2-3 dimensions.

Eight of these 38 indicators are directly applicable at company-level and capture information related to company-level innovativeness. These indicators are as follows:

- number of technicians in R&D
- spending in R&D
- number of researchers in R&D
- net intellectual property payments
- scientific and technical journal articles
- university-industry linkages
- utilisation of foreign-licensed technology
- firm-level technology absorption

Another perspective to assess and capture the impact of direct VC investment on innovation is to look at the presence of inefficient/state incumbents in a given sector and then assess the investment's potential to disrupt these inefficient incumbents. This is what IFC's AIMM sector framework for its direct VC investments does. Instead of looking at patents, R&D, intellectual property etc., it focuses on price reduction in the sector through the reduction of inefficient incumbents.

84. **On this matter, there has been some progress under VCIP II and III, albeit arguably on a moderate scale.** For instance, one of the transition objectives of the VCIP III is to "support technology companies which carry out extensive R&D activities to develop new products and services and it is expected that a portion of EBRD financing will support significant and incremental R&D expenditures linked to product development". Looking at the current VCIP II and III portfolio where investments in online marketplaces, e-commerce and mobility are still most prevalent, there are examples of investments in companies centred around applications of big data, deep tech, artificial intelligence and machine learning to offer solutions for biomedical research, symptom checker and medical triage and cyber security.

5. To what extent were the VCIP design and delivery efficient?

85. **Prior to the launch of VCIP I in 2011, the Bank had not been geared or staffed for the special challenges of successful VC investing in its local markets.** Because of this, EvD routinely highlighted a number of internal shortcomings that limited the Bank's ability as an IFI to play the role of a venture capitalist resident in EBRD economies.[20]

86. **The approval document of VCIP I acknowledged these shortcomings and noted, "these lessons have been expressly incorporated into the design and structure of VCIP."** The suggested solution was to introduce (i) a dedicated team of three internal EBRD professionals capable of applying dedicated resources towards post-investment monitoring of the investment portfolio, (ii) single points of support from within Credit, OCE and OGC in order to capture the Bank's experience in technology investments and, (iii) three proven, experienced venture investment professionals through the creation of an Advisory Committee which would review and appraise investment proposals. In the following, the evaluation looks at how the Bank implemented this solution and whether it resulted in the desired outputs, i.e., the deployment of VCIP funds (Section 5.1), a well-governed process with an appropriate risk appraisal (Section 5.2) and a sustainable programme (Section 5.3).

5.1. The Bank was not ready in 2011 to efficiently deploy VCIP I but has caught up since

87. **Under the programme, the Bank deployed €68 million between 2012-21.** The expectation at the approval was to deploy €100 million between 2012-16. This was because the internal processes of the Bank were not fit to run an internal VC fund at the onset. This has caused delays. Since the inception of the programme the Bank has made substantial progress in aligning with market practice in terms of timelines. Nevertheless, it is still not as agile as a typical VC fund and there is an entrenched perception of EBRD as a slow and inflexible co-investor.

88. **Between 2012-13 the Bank's internal processes were not ready to run an internal VC fund that operates in alignment with market practises.** This issue got resolved, to an important extent, through the development of appropriate (and leaner) legal and risk assessment procedures. Another material problem at the outset was that under the initial set of investment criteria the Bank was not allowed to be the largest investor in any given financing round. This issue got resolved in late 2013 with the modification of the investment criteria that allowed the Bank to be the largest investor in any given financing round. Following these changes, the portfolio expanded from 3 signed deals between 2012-14 to 10 signed deals by 2015; the amount invested grew from €8 million to €34 million between 2014-15. Still, the deployed capital was lower than

[20] The curious reader might find some concrete examples in Operation Evaluation Reports of Microsystem RT (PE93-08), OAO Concern Kalina (PE06-348) and Expanded Monitoring Report Assessments of New Europe Insurance Ventures (PEX03-200) and Framlington Russian Investment Fund (OPL97-35). Amongst others, these reports note "The Bank is presently not appropriately geared, staffed or deployed for the special challenges of successful venture capital investing in its local markets"; "The board presence of the venture capital partner can increase management efficiency and facilitate implementation of Western business practices"; "The Bank should not rely exclusively on another party for structuring and due diligence when participating in co-investments." "Vigorous, but efficient screening/evaluation procedures are required to secure full and successful disbursement of the Bank," respectively.

initially anticipated. Therefore, in April 2016, the Board approved an extension of the initial investment period of the VCIP I by 3 years, until March 2019.

89. **According to interviewed Bank staff, as of today, the Bank can complete a typical direct VC investment within six weeks.** Interviewed EBRD staff described this as a substantial improvement and noted that around early 2014 the EBRD process was between three to six months. EvD's review of internal approval records corroborates this. The time between the approval of a Final Review Memorandum and signing gradually declined from between 11-16 weeks in 2014 to 6-8 weeks in 2018. Four weeks is often mentioned as the industry average to complete a VC investment at a Series A round. Lastly, feedback from the interviews with co-investors and companies indicate that VCIP pre-investment procedures were on the lengthier side but not excessively long.

5.2. VCIP augmented the internal EBRD approval cycle in a novel and positive way through the External Advisory Committee

90. **Projects under VCIP I followed the regular EBRD Small Business Investment Committee approval process with individual investments approved under delegated authority.** However, there has been one crucial exception: the VCIP I has an External Advisory Committee (EAC) – a bespoke body consisting of three external and seasoned VC partners and a senior EBRD staff from Private Equity designed specifically for VCIP. Before spending significant time on scrutinising a potential investment, the Operation Leader (OL) presents a Concept Review Memorandum (CRM) to the EAC. If approved, the OL submits the proposal to the Small Business Investment Committee (SBIC) for Concept Review. SBIC then decides on whether the VCIP team should proceed with the investment consideration. If affirmative, the OL presents a Final Review Memorandum (FRM) to the EAC, which then decides on recommending the investment to SBIC for final approval. Lastly, SBIC decides whether the Bank will complete the investment at the proposed terms. During the process, any member of SBIC can refer the investment to the OPSCOM for approval. Under VCIP I, there were 64 submissions to SBIC, of which one related to an investment in blockchain technology was escalated to OPSCOM.[21]

91. **The role of the EAC has been instrumental, and its value added has been universally praised across interviews.** Firstly, it has been crucial in project appraisal and selection and, in certain cases, post-investment guidance. The role of three external VC partners who sat in the EAC (accompanied by one EBRD staff member), all with hands-on experience through past VC cycles, was particularly crucial at an early stage of the VCIP I. It offered a critical extra layer of scrutiny and comfort in gauging investments' merits – with a direct link to EBRD's sound banking principle. The EAC did not act as a mere rubber stamp. To the contrary, in the interviews it has been mentioned that the EAC approved roughly one-third of the projects presented to it. Additionally, the evaluation team failed to find any projects that were presented to SBIC without the approval of the EAC. Overall, it has been a source of vital industry knowledge for the investment team. Its set-up is a sign of prudence on the one hand as well as of fresh and out-of-the box thinking e.g., top-notch private sector industry expertise as a core component of the VCIP set up.

[21] OPSCOM eventually decided not to approve this project.

92. **An EBRD senior risk officer participates in EAC meetings as an observer.** The VCIP framework criteria has been stringent from a risk perspective, and the presence of a risk officer has helped to comply uniformly with these criteria:

- capping the Bank's maximum investment (€10 million) per investee
- not exceeding a shareholding of 35 per cent per investee – ensuring market testing is in place
- putting a cap of €100 million on cumulative VCIP I investments
- taking a preferred equity position and hence priority over companies' income
- including a liquidation preference entitling the Bank to get its capital back even if the company sells for a lower price than an entry valuation – mechanism incentivising the founders and other shareholders to create additional value.

93. **Briefly, sufficient controls are in place to select projects that could culminate in a commercially healthy portfolio.** This has been achieved via the introduction of the EAC, stringent framework criteria and the attendance of a senior risk officer at EAC meetings.

5.3. Turnover among VCIP's senior bankers had operational consequences

94. **Running a direct VC programme has been less costly than deploying the same amount of capital via indirect VC funds, for the investment stage that the VCIP has focused on.** A simplified and back of the envelope estimate of costs reveals that running the VCIP team with two senior and four principal bankers in-house corresponds to roughly half the cost had VCIP I and II financing been deployed indirectly via VC funds. This projection at the direct side includes salaries, administrative costs, Advisory Committee fees and support staff (Risk, OGC, other) costs; on the indirect side it assumes 2 per cent management fees on €200 million of committed capital. Further, unlike for indirect VC, the Bank does not pay any carry to the VC funds (typically, 20 per cent of the capital deployed).

95. **Nevertheless, it would be prudent to assess team capacity and key person risk for the VCIP team and design and implement mitigation factors.** The Bank assesses such risks and proposes mitigation factors for its investments in VC funds. In comparison with the VCIP team, these VC funds manage smaller portfolios in terms of volume but their headcounts are typically higher. Although these funds are better staffed than the VCIP team, a review of the internal documentation of EBRD's five most recent VC fund investments reveals that the Equity Funds Team frequently identified risks associated with team capacity and key persons and proposed mitigation factors for these funds. Similarly, a review of LinkedIn and Dealroom data reveals that VC funds that had raised between €500-600 million in the last decade have around 15-25 investment professionals. The VCIP team has four investment professionals and the capital it is expected to manage is more than €500 million including VCIP I, VCIP II, VCIP III and Venture Debt.

96. **As part of the evaluation, to juxtapose VCIP with other direct VC programmes run by peers from other DFIs, EvD conducted a comparative analysis of the programme with three other direct VC programmes run by ADB, FMO and IFC.** A full analysis is presented in Annex 2. Box 6 offers a snapshot with selected findings.

Box 6: Direct VC operations at other IFIs – some distinct features

The IFC puts much greater weight than the programmes of all other IFIs (including VCIP) on the presence of development outcomes, besides considerations on the financial upside. While some IFIs may be less explicit in applying a developmental lens at the investment appraisal stage as part of their direct VC operations, a clear-cut potential for development outcomes is de facto a pre-requisite for the IFC. It applies a formalised assessment in this respect that covers both project level and market level outcomes separately. Unlike the EBRD, it has also set up and applied an elaborate system to estimate these ex-ante and ex-post.

The ADB's direct VC programme, unlike other IFIs (including VCIP), is not financed from the Bank's balance sheet. It has bespoke stand-alone governance aligned more closely with typical private VC funds. The ADB Ventures programme was set up as a trust fund with capital commitments originated from five institutional partners.[22] One of the key implications is a bespoke and leaner investment process in relation to a standard ADB equity investment process, although for non-commercial requirements like ESG, it still follows the Bank's typical approach. To hedge against potential risks (including reputational ones) stemming from the trust fund structure and a somewhat looser alignment with standard ADB processes, each investment embeds a US$ 1 put option allowing a swift sell-off of shares in case (risk of) ADB rules/policies) are breached.

The FMO approach, as part of direct VC operations, envisages close integration with its indirect and Private Equity (PE) operations. The direct VC investment strategy envisages a potential for the "graduation" of VC investments into subsequent FMO PE investments once some start-ups mature and require further investments, and on the other hand, FMO indirect VC operations as early-stage (e.g., seed) companies feeding into the direct VC pipeline.

Similar to VCIP, programmes in the reviewed IFIs do not incentivise investment teams with "carry". Remuneration packages of direct VC investment teams in the ADB, IFC, FMO and EBRD do not differ from those offered to banking teams in other departments, and do not include "carry," a common and powerful financial incentive typically offered by private VC funds. Interestingly though, members of the ADB's Fund Investment Committee, an equivalent of the VCIP Advisory Committee, are offered an option to co-invest in a company along with the ADB, should they find it attractive.

97. **While the compensation scheme of the VCIP team does not differ from other EBRD banking teams, this has been in contrast to the common compensation structure offered by VC funds in the private sector – with potentially far-reaching implications for the programme.** Specifically, while the base salary of junior/mid-level VCIP team members may not differ significantly from that offered by a private VC fund in London, carried interest (or "carry"[23]), which typically constitutes a primary element of the financial incentive package for senior level VC professionals, has been absent at VCIP. The vast majority of consulted interviewees (external and internal) acknowledged that this nonalignment with the VC market practice constitutes a serious problem. As one of the interviewed VC fund managers said, "No equity upside in the form of carry is a massive disadvantage (for EBRD) to attract and retain the best GPs and principals". Another VC investor concurred, "You cannot start the business without the right people with DNA in VC, personal

[22] Ministry of Foreign Affairs of Finland, Climate Investment Funds, Nordic Development Fund, Korea Venture Investment Corporation, EAKPF Korea.
[23] Offered to a general partner (and sometimes to other members of investment teams), typically oscillates around 20 per cent of the overall financial return from the portfolio.

networks are also crucial. Partner-level people need to have that experience. VC is a very person-dependent craft".

98. **Generally, while the financial incentive element (and lack of carry) in the early days of VCIP I may not have been that important (e.g. staff was offered an exciting opportunity to set up a new team and roll out a new asset class in the Bank while competition for good deals was much less fierce than now), this may have major business and financial implications for VCIP II and III (that are outside the scope of this evaluation).**

99. **Yet, there are valid reasons why "carry" has not been part of compensation package for the VCIP team or for any other MDB that runs direct VC (see Box 6 above).** These include inherent issues of "carry" allocation across involved personnel and a potential sea change in terms of the equality of compensation across Bank teams. However, without precluding the merit and feasibility of this option, EvD identified some potential business implications:

- higher turnover and difficulties in attracting talent with prior VC expertise
- reduced ability to deploy the VCIP capital
- disruption in post-investment support to companies
- insufficient incentives to senior staff to purse most impactful deals and to execute exits in a timely manner.

100. **Throughout 2022, senior VCIP bankers left the team.** As a result, the total number of VCIP bankers dropped from six to two and a half FTE (its lowest point) at the end of February 2023. Between 2016-22, talent retention was not a problem. The total headcount was six and the team's composition was stable. However, with time, team members accumulated experience, undertook successful investments and progressed in seniority. Ultimately, these staff "graduated" from EBRD's VCIP team and assumed partnership roles in private VC funds. This model of talent management is an additional layer of operational challenge. Whether or not it is suitable to implement VC operations at the Bank is uncertain.

6. Insights and Recommendations

6.1. Key findings and insights

101. **This concluding section brings together the findings presented above in response to the overarching question this evaluation examined:** the extent to which the VCIP supported the development of technology innovation and its commercialisation and promoted VC investments in EBRD economies where financing options for early and growth stage technology companies are scarce.

102. **It proposes three broad insights related to the purpose and implementation modalities of the VCIP and two recommendations moving forward.**

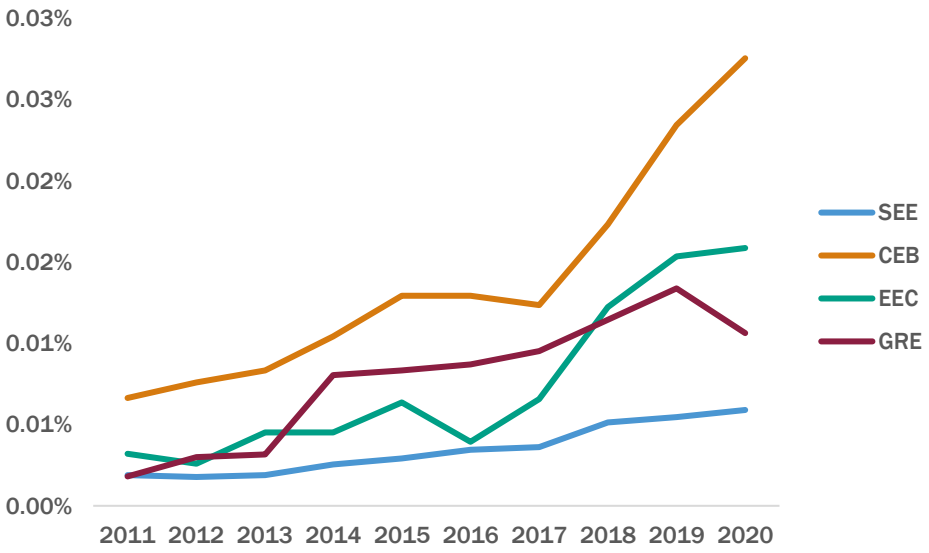
Insight 1: The Bank's experience with the VCIP I demonstrates that its design and objectives were and still are valid in terms of expected contribution to addressing the financing gap and the development of the VC ecosystem in EBRD economies.

103. **In the last decade, the landscape of available VC financing changed in some EBRD economies in a stark fashion.** In most EBRD economies, as a share of GDP, available VC financing grew markedly after 2011. At present, companies with innovative technologies or business models are raising more capital earlier in their life cycle to accelerate their growth and capture the market opportunity faster.

104. **EBRD's interventions contributed to this change.** In CEB, Greece and EEC the growth rate of VC investments over the last decade has been above 300 per cent; these regions outpaced the United Kingdom, Germany and France. In SEE though, the growth of VC investments as a share of GDP has been sluggish (Figure 11). During 2015 and 2018, EBRD's share in all VC investments in a number of CEB, SEE and EEC countries[24] and Greece oscillated close to 10 per cent and reached 16 per cent in 2016. Investments under VCIP I constituted 45 per cent of EBRD investment. The balance came from the Bank's indirect investments through VC funds (Figure 11).

[24] Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovak Republic, Slovenia, Ukraine.

Figure 11: VC investments as a share of GDP (2011-20)



Source: EvD elaboration from Invest Europe data

105. **Nevertheless, there is still a major gap in available VC to support small and medium-sized technology companies in EBRD economies generally.** That is somehow more pronounced beyond seed and start-up stages. Additionally, the involvement of top tier VC funds in EBRD economies typically remains ad hoc and sporadic.

106. **Within this context, the Bank approved VCIP III in early 2022.** VCIP III capped the ticket size per round at €25 million and the total envelop at €250 million – reflecting changing market conditions (including higher valuations) without any fundamental changes in the investment strategy from the one proposed in 2011 as part of the VCIP I.

Insight 2: The financial success of the portfolio contributed to the development of the VC ecosystems. However, its impact on innovation has been limited because by design the programme did not assume any technology risk.

107. **While financially successful, the execution of the investment strategy of VCIP I led to a portfolio of companies that clustered within two sectors – business enterprise software and online marketplaces.** These companies had innovative business models and some of them acted with global ambitions. Nevertheless, none filed any patent applications or established connections with universities. Although the approval document defined technology sectors as "software and web services, semiconductors and materials, communications, mobility and media, and cleantech" there have been no investments in "semiconductors and materials and cleantech". No information related to "research and development spending, technicians and researchers employed in research and development activities, net intellectual property payments, publications scientific and technical journals, use of foreign licensed technology and technology absorption" is available. Similarly, no information is available on the impact on sector competitiveness of disrupting traditional incumbents.

108. **There is an opportunity for the VCIP to invest in a wider range of sectors that could directly support competitiveness and innovation in EBRD economies.** The clustering of investments in business enterprise software and online marketplaces is a reflection of the available market opportunities as well as of available skills and experience within the VCIP team. Since the initiation of VCIP I, the VCIP team gradually acquired the skills and experience required to invest in business enterprise software and online marketplaces. Consequently, primarily seeking commercially profitable deals in a select number of sectors limited the potential impact of the programme on technology innovation. Therefore, it is possible to further diverse the VCIP portfolio without a change in the investment stage. Hence, albeit to a small degree, investments under VCIP II and VCIP III have been more diverse than under VCIP I in terms of sectorial composition. The Bank invested in a number of deep tech software companies under VCIP II and VCIP III. However, that reflects changes in available market opportunities rather than strategic intent. The number of vertical specialist seed funds in EBRD economies has been on the rise, a pipeline of start-ups that can drive competitiveness in EBRD economies has been growing, while funding for genuinely innovative companies at Series A and B has remained scarce. The VCIP team might consider strategically cooperating with these funds and others to "cherry pick" projects that offer more risk and return, diversify its portfolio and enhance its delivery on innovation. A recent example is the €15 million envelope that the IFC has established for potential co-investment opportunities alongside funds managed by Revo Capital.

Insight 3: Running an internal VC fund within the Bank comes with opportunities related to institutional learning but it is subject to Bank-wide constraints that render it less flexible than other market participants.

109. **The VCIP team and related Bank units have the opportunity to interact and learn from each other with a view to enhancing the Bank's overall delivery.** In certain cases, such opportunities have been tapped, while in others they remain to be tapped. The VCIP team's engagement with the Gender and Economic Inclusion Team has been fruitful. Additionally, Star Venture supported the development of VCIP's advisory arm that the VCIP team assesses as a success. Nevertheless, similar synergies with the rest of the Bank remain to be established, bearing in mind the small size and high workload of the VCIP team in its current form. Different options to encourage such synergies could be envisaged such as tapping into the Bank's existing sector expertise, where available and relevant, such as in cleantech, energytech, and aggrotech or even reconsidering the investment model to also encourage sector teams to explore venture investments outside the VCIP envelope, with the VCIP team providing technical support.

110. **The approach also triggered institutional innovation in setting up the EAC as part of the VCIP – a bespoke body consisting of three external and seasoned VC partners.** The EAC was instrumental for the financial success of the VCIP I and played a critical role in knowledge accumulation by the VC Investment team in the fund's early days. The decision to draw on experience from the private VC market for appraising investment proposals in a systematic and structured way was bold and wise. And yet, in hindsight, it may not be as obvious as it may appear nowadays as some other IFIs that had set their own direct VC programmes have chosen not to follow such a path. Strengthening in-house expertise with the EAC has had far-reaching and positive implications for the VCIP. More broadly, it should be seen as evidence of openness and of a collaborative spirit, essential ingredients of engagement in the private sector and even more vital in VC markets – a network-driven sector where syndicates of collaboration create success.

111. **Yet, running an internal VC fund within the Bank comes with limitations as well, in particular for attracting and retaining senior VC expertise, which is instrumental for the sustainability of the VCIP.** While the compensation scheme of the VCIP team does not differ from that of other EBRD banking teams, it has contrasted with the common compensation structure offered by VC funds in the private sector. Consequently, senior VCIP bankers left the team throughout 2021 and 2022. More recent turnover of senior staff led to frequent changes of EBRD Board representatives at the portfolio companies. Founders did not find these changes conducive for their financial and operational performance and perceived EBRD as being "thinly spread". Moreover, the absence of senior VC expertise puts project selection at risk for the VCIP II because sourcing deals depends on networks in the relevant local territories. Senior people build such networks of relevant contacts over many years in sourcing both capital and deals.

112. **Continuing the VCIP approach requires rethinking its purpose within the broader framework of EBRD's operating principles of sound banking, additionality and impact, and balancing opportunities and limitations.** Establishing an internal VC fund within a MDB – or more broadly within a corporate – with an incentive structure that works for the fund as well as for the MDB (or the corporate) is a hard problem to solve. Within this context, ADB Ventures offers some inspiration. Set up as a trust fund, its capital commitments originated from institutional donors, which helps ADB Ventures have its own bespoke and hence leaner investment process in relation to a standard ADB equity investment process. Additionally, the EAC members of ADB Ventures are offered an option to co-invest along with it in a company they find attractive. Going forward, another area to consider is supporting the mitigation of social risk in VC investments. At present, the Bank's environmental and social due diligence (ESDD) of potential investments under VCIP is minimal. This makes sense because, at the time of investment, these companies are typically small office-based IT companies. Moreover, undertaking a comprehensive lengthy ESDD for these projects would not align with typical investment timelines and current market practice. However, public concern is growing about issues related to labour conditions, the responsible use of AI and data privacy in VC investments that the EBRD may help address as part of its additionality.

6.2. Recommendations

113. **The evaluation findings and insights lead to the following two recommendations:**

Recommendation 1: Consider developing an approach that casts a broader net in terms of technology sectors to enhance the VCIP's impact on competitiveness and innovation.

114. **While financially successful, the execution of the VCIP I investment strategy led to a portfolio of companies that clustered within two sectors.** There is an opportunity moving forward for the VCIP to explore ways, for example, through internal and/or external cooperation, to invest in a wider range of technology sectors that could directly support competitiveness and innovation in EBRD economies.

Recommendation 2: Enhance current structure and arrangements by reviewing organisation and resourcing of the VCIP team (including possible out-of-the-box

arrangements) so that the Bank achieves both its investment strategy and the internal synergies required for high additionality and impact.

115. **Successful investing in VC should be measured by financial performance together with achieving sound banking, additionality and impact.** Running an internal VC fund within the Bank comes with opportunities for enhanced additionality and impact through institutional synergies but is subject to Bank-wide constraints that render it less flexible than other market participants and may limit its overall performance. In line with the previous recommendation, there is an opportunity moving forward for the EBRD to review arrangements related to its VC investment model to both foster increased synergies internally and achieve high financial performance.

ANNEXES

Annex 1. Project Data

Op Id	Operation Name Current	Original Agreement Sign Date	Completion Date	Status	Country Name Current
44026	VCIP - KupiVIP Holding	2012		write-off	<REGIONAL>
44913	VCIP - Evim.net	2013	2016	write-off	TÜRKIYE
44832	VCIP - INVIA Travelata	2014	2022	exit	RUSSIAN FEDERATION
46125	VCIP - WEBINAR	2014	2022	write-off	RUSSIAN FEDERATION
46399	VCIP - Trendyol	2014	2018	exit	TÜRKIYE
47236	VCIP - DocPlanner	2015		active	POLAND
47436	VCIP - Trafi	2015		active	LITHUANIA
47518	VCIP - GoOpti	2015	2020	write-off	SLOVENIA
47120	VCIP - Deposit Photos	2015	2022	exit	UKRAINE
46781	VCIP - Onedio	2015		exit	TÜRKIYE
48718	VCIP - Explain Everything	2016		exit	POLAND
49099	VCIP - PandaDoc	2017		active	BELARUS
49551	VCIP - Pollfish	2017	2022	exit	GREECE
49097	VCIP - Targetprocess	2018	2021	exit	BELARUS
49705	VCIP - Basharsoft	2018		active	EGYPT

Annex 2. Experiences of IFC, ABD and FMO in VC

IFC

Currently, IFC's VC direct investments have been made via two 'shops': one focuses on Fintech and targets companies that deliver new products and services in areas such as payments, lending, savings & investments, capital markets infrastructure and insurance. The other, concentrating on Disruptive Technologies, has supported a wider range of companies from B2B and B2C e-commerce, clean-tech, e-logistics, health-tech to ag-tech.

IFC kick-started its direct VC investments in late 2000s becoming the first ever IFI offering this asset class. Initially in a more ad hoc basis, it ramped up the program from 2015 onwards. In turn, its first pure indirect VC investment in a local VC fund took place in 2016, albeit IFC started investing in funds since 1990 – more traditional private equity and then Growth Equity Funds.

Overall, the rationale for setting up direct VC operations was, among other things, a strong realisation of existing market opportunities and hence a need of greater involvement, which also prompted setting up a dedicated in-house VC team. Besides, direct VC was also seen as a chance of greater role in shaping an investee's strategy and expansion, and opportunity to tap into markets that were hardly/ not covered by existing VC funds operating in less developed and yet promising markets.

As of now, IFC's portfolio of direct VC investments consists of circa 80 companies supported under Disruptive Technologies and further 60 or so fin-tech companies. Both attracted around USD 2 billion of IFC investment so far. Although categorisation of indirect VC in IFC's case is not clear-cut and figures may vary depending on the definition, it has so far invested around USD 1 billion in 30+ VC funds.[25] Overall, IFC has been by date indisputably the largest VC investor in emerging markets among all IFIs. It claims that its VC investments in tech business mobilised USD 30 billion of additional investment so far.

- Geographic scope: no particular restrictions, emerging economies in general.
- Stage: typically Series A round, less frequently Series B and C rounds under direct VC (seed to Series D under indirect VC).
- Sector: B2C Ecommerce, clean-tech, e-logistics, B2B Saas and ed-tech have been are most represented sectors in the direct VC portfolio.
- Typical ticket size: typically between USD 5 million and USD 20 million.
- Shareholding: maximum 20% of overall stake.
- Technical Assistance: no standalone facility dedicated exclusively to the direct VC team.
- Co-investors: there are no restrictions on type of co-investor
- Investment Committee: Contrary to some other IFIs like ADB, EBRD and FMO, IFC does not have a standalone investment committee (or an equivalent of it) relying on external VC experts in appraisal of investment proposals. Instead, investment proposal appraisal stays entirely in-house.

IFC does hold a Board seat in majority of companies it invested in directly, though for the deals where it co-invested alongside other investor(s), it takes a hands-off approach relying on the lead investor. Overall, while some IFIs may be less explicit in applying development outcomes' lens at investment proposal appraisal stage as part of their direct VC operations, IFC stands out in terms

[25] IFC, 2023. VC funds. Available at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Venture+Capital/Portfolio/#VCFunds

of weight attached to it - formalised assessment with minimum level being de facto a pre-requisite for an investment. It has also set-up and applied an elaborate system to estimate development outcomes at project and market level.

There is currently around 70 staff members directly involved in direct (across two shops) and indirect VC operations altogether. Like in all other IFIs, there is no 'carry' neither other alternative form of rewards e.g., higher bonuses available to direct VC investment staff that would mimic more performance-based remuneration packages used often in private VC funds. Type of in-house expertise does not allow it to take technology risk and it focuses on growth risks instead.

There is not publicly data available allowing to gauge the financial performance of the IFC's direct and indirect VC operations.

ADB

ADB established its first direct VC facility - ADB Ventures Equity Fund (ADBV)[26] - in January 2020. Prior to that, the Bank had exposure to VC market (direct or indirect).

With USD 60 million commitments, the ADBV reached final close in September 2020. As of January 2023, it invested circa USD 30 million in 9 companies (including 6 follow-on investments) and now plans a further USD 40 top-up of the fund. ADBV aims to mobilise at least USD 360 million of private capital throughout the fund's life. Besides, there is currently an on-going preparatory work to set up the second USD 200 million direct VC fund.

Unlike VCIP for which the entire capital comes from the EBRD's balance sheet, ADBV was set up as a trust fund with capital commitments originated from five institutional partners.[27] One of the key implications is a bespoke and leaner investment process vis-à-vis a standard ADB's equity investment process. Yet, for non-commercial requirements e.g. ESG requirements, ADBV still follows Bank's typical approach. To hedge against potential risks (including reputational ones) stemming from the trust fund structure and somehow looser alignment with standard ADB processes, each investment embeds 1 USD put option allowing a swift sell-off of shares in case of (risk of) breach of ADB rules/ policies.

The rationale for setting up direct VC operations was a mix of few factors including, inter alia, (i) top management appetite to tap onto the market segment characterised by (very) high innovativeness and opportunity for the ADB, as a development institution, to leave its footprint there, (ii) relatively high impact from a modest capital deployed, and (iii) ability to leverage some distinct ADB's strengths for investees' benefit e.g. existing relationships, including those with local authorities/ governments.

ADBV investment strategy is guided by the following parameters:

- Geographic scope: Asia and Pacific Region.
- Sectors: ADBV investment strategy focuses on clean-tech, agri-tech, fin-tech and health-tech companies, albeit clean-tech has so accounted for over 80% (by volume) of all portfolio investments.

[26] ADB, 2023. ADB Ventures. Available at: https://ventures.adb.org/
[27] Ministry of Foreign Affairs of Finland, Climate Investment Funds, Nordic Development Fund, Korea Venture Investment Corporation, EAKPF Korea'

- Stage: early growth (Pre-Series A to Series A) NB: seed investments are also offered as part of a separate facility – ADB Ventures Seed Program. So far, over 30 seed stage investments, each up to USD 0.2 million, were made.[28]
- Typical ticket size/ # of companies: USD 0.5 million to USD 3 million per an investment (with USD 4 million cap) / at least 15 companies. NB: 50% of Fund's capital reserved for follow-ons.
- Shareholding: typically between 5-10%, with 20% cap.
- Co-investors: there are no strict eligibility criteria for the type of co-investors that ADBV teams up with, though it seeks to co-invest with private VC funds (rather than public investors), and always on a pari-pasu basis.
- DD & approval process: While the overall investment process may still take more time than for a typical VC fund in the region (circa 5 months vs circa 3 months), it is significantly faster than the timeline for a typical ADB non-VC investment process.
- Fund maturity: Formally, the fund has a 17-year fund life for holding periods of up to 10 years to maximize the opportunities for success of an early-stage company requiring more patient capital. In practice, timescale may be shorted, though some leeway may offer buffer compared to typical private funds and the LPs' pressures they may face.

Post-investment, ADBV may take up a Board seat or observer status, though for some investments it has been neither of both. Although it strives to add value where possible, it typically takes less active stance than other private co-investors do. Often though, it seeks to lift-up an investee compliance with ESG and may also offer distinct connections to some stakeholders (e.g. local governments, less so commercial ones).

ADBV core investment team currently consists of 10 people along with five staff members providing support in aspects such as admin and communication outreach. Contrary to the VCIP team, practically all members of the ADBV investment team have prior, hands-on experience in VC funds and/or running start-ups.

Similarly to the VCIP's Advisory Committee, ADBV has also relied on external expertise for investment proposals' appraisal. Its Fund Investment Committee consists of four members (of which three are seasoned VC partners + ADB Senior Risk Officer) whose core responsibility is proposals' appraisal (no involvement at post-investment stage). Interestingly, members of the Fund Investment Committee are also offered an option to co-invest along the ADB in a company, should they find it attractive.

FMO

The FMO Ventures program focuses on early stage, tech enabled direct investments alongside a lead investor and indirect investments with a more generalist focus in funds.[29] It consists of EUR 200 million financial envelope, with 50/50 split between direct and indirect VC investments. It has been funded from the contributions from the Ministry of Foreign Affairs of the Netherlands and a guarantee from the European Union and envisages 4-years investment period.

Following preparatory work and conceptualisation that began in late 2018 and continued throughout 2019, the first direct VC investments were made in early 2020. Since then, FMO invested directly in 15 companies and in 3 funds indirectly.

[28] ADB, 2023. ADB Ventures Investment Fund 1. Available at: https://www.adb.org/what-we-do/funds/adb-ventures-investment-fund-1

[29] FMO, 2023. FMO Ventures. Available at: https://www.fmo.nl/ventures-program

FMO Ventures investment strategy is guided by the following parameters:

- Geographic scope: Africa with some investments also in European neighbourhood (circa 60%) and parts of Asia (circa 40%);
- Stage: Series A and B with follow-on capacity along with a limited allocation for seed-stage investments. NB: for indirect fund investments there is more flexibility, but main focus remains seed, Series A and , B;
- Sector: fin-tech, energy access and agri-tech. NB for indirect fund investments there is more flexibility;
- Typical ticket size: EUR 0.5 – EUR 3 million, albeit allowing also some room for follow-on investment(s). Currently, the average ticket size for the whole portfolio oscillates around EUR 2 million. Beyond follow on investment(s) a graduation of direct investment to Private Equity is possible;
- Technical Assistance: FMO Ventures may support its investments with the Technical Assistance Facility[30] that consist of three windows: (i) investee strengthening, (ii) fostering local entrepreneurial ecosystems e.g., by improving services of incubators and accelerators, (iii) community engagement bringing entrepreneurs with investors and other stakeholders. The Facility is funded from the EC and government funds managed by FMO on behalf of the Ministry of Foreign Affairs of the Netherlands;
- Co-investors: FMO Ventures invests directly only alongside a local, regional or international lead investor. Definition of a 'qualified' lead investor used by the FMO has been inclusive with selection being de facto driven by reputation and track record of the lead investor;
- Investment Committee: FMO Ventures Program had a separate IC with FMO representatives. In addition, FMO has a panel of external experts (Advisory Council) of five members that gathers on a quarterly basis to share knowledge and expertise on VC investing and coach the team on portfolio matters (but does not appraise investment proposals);
- Exits: given still relatively young portfolio, there has been no exits (and no write-offs), as of January 2023. The team is currently preparing a guideline document outlining key principles around exits and liquidations. Due to less developed nature of markets where the investees operate, chances for exiting via IPOs have been slim. For some investments that perform well, graduation and direct investment at later stage from the FMO equity team with a bigger ticket size, may be also considered (on the direct side one such case so far, on the indirect side 2-3 cases).

Overall, the rationale for setting up direct VC operations (rather than continuing with an indirect approach) was a combination of few factors. Fintech and energy sectors, where FMO had been traditionally present with some prior exposures via its direct equity investments, saw a series of new businesses disrupting the markets. Direct VC was seen as an opportunity to engage earlier and build up stronger positions in these sectors. Clear market gap, at Series A stage (while capital at Series B and C was somewhat easier to tap on, as per FMO's diagnostics) as well as intention to exercise greater impact at companies' level also played some role.

While there was some prior in-house expertise at FMO that was leveraged from pre-existing direct equity operations (e.g., in fin-tech) and indirect VC investment activities, there was limited hands-on experience in direct VC per se at the outset. Thus, investing alongside a local, regional or international lead investor was set as a pre-requisite for any direct VC investment.

Approach to direct VC investments envisages an active role played by FMO in an investee, typically via (nominee) Board seat (9 cases) or Board observer status (5 cases). Yet, since the

[30] FMO, 2023. Technical Assistance Facility. Available at: https://www.fmo.nl/technical-assistance-facility

entire investment team is based in The Hague, Netherlands, in practice the role of other co-investors may have been somehow more pronounced for certain investees.

Development outcomes have been sought via '…investing in innovative business models applying disruptive technology to enable or improve affordable access to goods and services to un(der)served communities'[31] , with primary goal to reduce inequalities.

The team currently consists of 12 members (investment staff), 2 staff members responsible for Technical Assistance and draws also on some support from few other functions (e.g., FMO's legal team). Most of the investment staff was recruited from other FMO departments rather than externally e.g., private VC funds. Remuneration package for the FMO Ventures investment team mimics the structure of other teams. There is no carry available in case of abnormal financial return neither other alternative form of rewards e.g. higher bonuses. Given shallower and less competitive VC sector in the Netherlands compared to the UK, retention of the staff has been of a lesser challenge than for the VCIP team.

Given young portfolio, it is not possible to gauge its financial performance at this stage. For direct VC investments, multiple of 5-10x are targeted, whereby the set up of the facility also factors in write offs. For indirect VC investments, net IRR target of 15% is targeted.

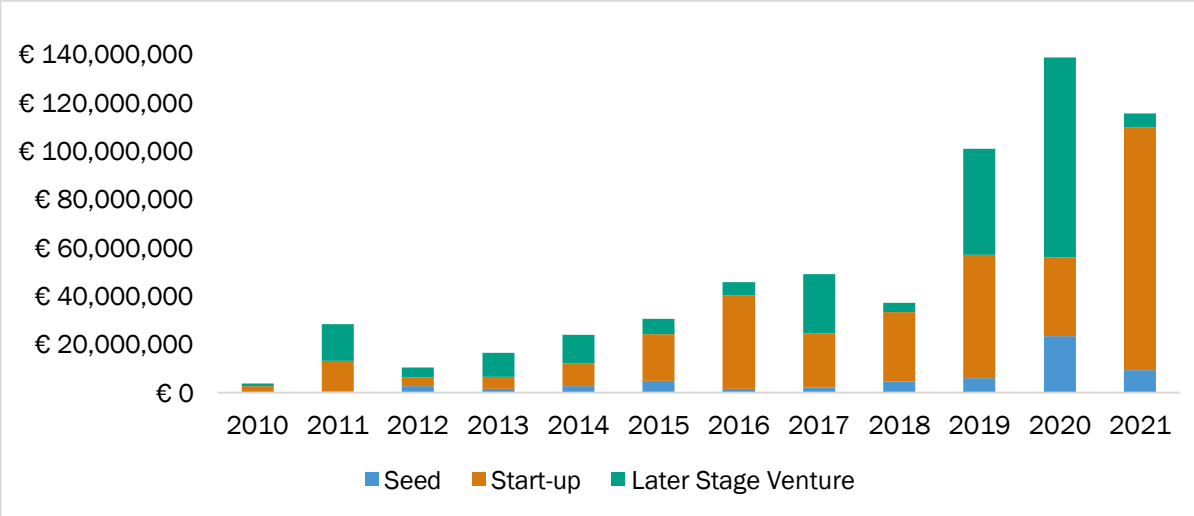
[31] FMO, 2023. Responsible Venture Capital. Available at: https://www.fmo.nl/responsible-venture-capital

Annex 3. Poland Case Study

VC ecosystem in Poland

VC investments in Poland were (very) limited for most part of 2010s. Although those had kept growing gradually from 2012, it was only in 2019 that the €100 million threshold of annual VC investments was crossed within the last few years marking buoyant growth and a structural change of the Polish ecosystem. Among the reasons behind the sluggish development of the local VC ecosystem, the 2018 OECD report on financing innovation business investments in Poland[32] listed double taxation of VC funds through CIT and PIT[33], regulatory uncertainty[34] and to some extent a lack of good projects.

Figure 12: VC investments in Poland, by origin of company



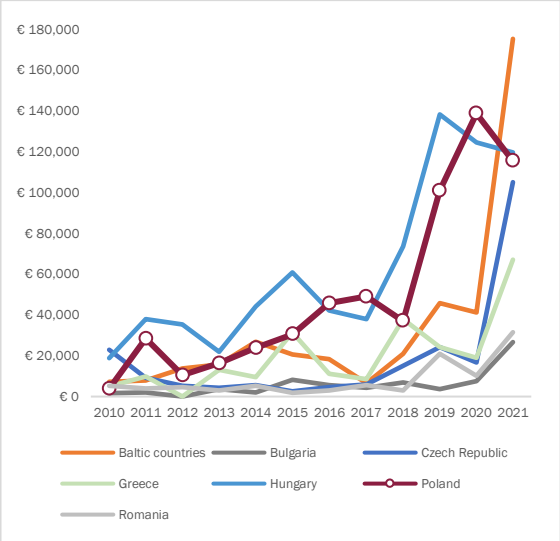
Source: Invest Europe data
Note: (1) for exact definition of seed, start-up and later stage venture see Invest Europe Glossary and Methodology; (2) Invest Europe figures may underestimate the actual size of the VC market due to exclusion of late stage mega-rounds investments over the period 2019-2022 e.g. in Booksy, Brainly, ICEYE and DocPlanner. D elaboration from Invest Europe data

And although VC investments in Poland have risen markedly since 2019 (Figure 12), so did those in some other countries of the CEE region that itself became fastest emerging region in Europe in terms of VC capital invested, growing circa 2 x faster than Western Europe.[35] Despite evident progress, with a population of nearly 40 million people Poland still punches considerably below its weight in terms of value of VC investments it attracts. While over the 2010-2015 period the Polish start-ups received EUR 113 million of VC investments, 2016-2021 saw over four-fold increase (EUR 486 million). However, Hungary, Czechia (aka The Czech Republic) and Baltic

[32] OECD, 2018. Financing innovative business investments in Poland. Available at: https://www.oecd-ilibrary.org/economics/financing-innovative-business-investment-in-poland_d7605f72-en;jsessionid=xI8RA_fsiwUE_n0bx7znqh5Ev-j3fB1qYCnltdy5.ip-10-240-5-120
[33] Resulting in profits achieved by the funds and dividends paid to shareholders being both taxed.
[34] Polish pension funds that represented well developed investor base that could invest in riskier long term projects were subject to reform in 2014 effectively limiting voluntary contributions to private pension funds.
[35] For instance, annual value of VC capital invested in CEE region grew 4.9 x between 2015 and 2019 compared to 2.6x for France, 2.5x for Sweden, 2.2x for Spain, 2.1x for the UK, 2.0x for Germany and 1.5x for Netherlands, according to Dealroom.co data

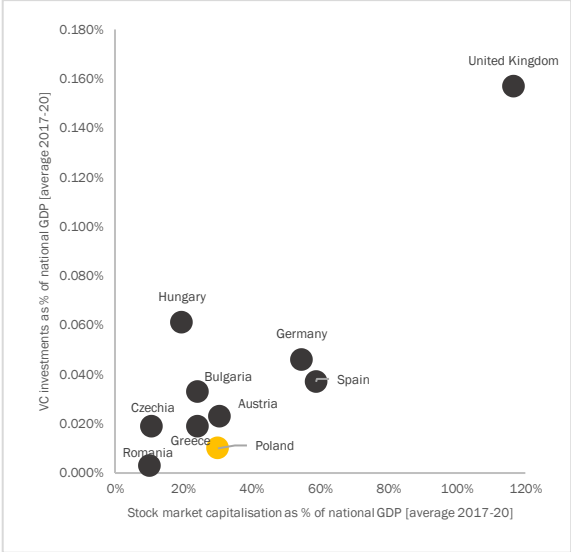
States have benefited from large inflows as well[36] (Figure 13). Also, Poland has a comparatively developed capital market with average stock market capitalization of domestic companies for the period 2017-20 of circa 30% of national GDP, compared to 24% in Greece and Bulgaria, 19% in Hungary or 11% in Czechia. However, regarding VC investments as a share of national GDP, Poland still bottoms the CEE region (and in fact the whole EU), with the exception of Romania (Figure 14).

Figure 13: VC investments, in € thousands



Source: Invest Europe data

Figure 14: VC investments and stock market cap as % of GDP



Source: Computed by EvD based on WB data on market capitalisation of domestic companies and Invest Europe data on VC investments as share of national GDP

State/ public funding[37] was critical in the development of Polish VC market and it is hard to overestimate its role in early days. Although the investor base has diversified in recent years and this included some reputable regional VC funds, acceleration of the growth of Polish VC ecosystem will continue to co-depend on state/ public funding. In 2005 the National Capital Fund (KFK) was set-up and supported 18 local VC funds between 2007 and 2017. In 2007 the National Centre for Research and Development (NCBR) began to invest in start-ups with high R&D potential and later on also launched a €500 million CVC Fund of Funds. Following the country's accession to the EU in 2004, the Polish Agency for Enterprise Development (PARP), specialized in rounds of up to €200k and, turbo-charged by EU funds, began investing in the earliest stage of development of start-ups, financed the development of incubator and accelerator networks, and between 2007-17 injected over €200 million in the local VC ecosystem. Crucially, in 2016 the Polish Development Fund (PFR) was established and through the PFR Ventures' arm and with circa €650 million capital at its disposal to invest in the Polish VC market between 2018-23 (0.2% of 2016 GDP), it targeted two market segments: (i) seed & pre-seed often supported by first time local funds, and (ii) larger start-ups requiring between €3 – 9 million investment.[38] As of January 2023, the PFR held a portfolio of more than 60 funds that have made over 650

[36] 3.4 x increase in Czechia, 3.3 x increase in Baltic States, 2.4x increase in Hungary over the period 2016-21 compared to 2010-15. Based on Invest Europe data

[37] Category that includes capital raised from public sources, Polish state agencies (e.g. NCBR, PARP, PFR), EU funding, EIF and the like.

[38] Start-ups Poland, 2019. Polish Start-ups Report – 2018. Available at: https://startuppoland.org/wp-content/uploads/2021/06/Polish-Startups-2018-Report.pdf

investments.[39] Overall, between 2009-2019 as many as 81% of the venture rounds in Poland were conducted with the state support[40] and according to Invest Europe data, public sources accounted for 50% of all VC funding invested in Poland between 2015-21 with no sign of abating in the most recent years.

The share of foreign VC financing flowing into Poland, either from foreign LPs backing Polish funds or foreign funds investing themselves, has been on the rise. According to the PFR, there has been a steady growth in the proportion of rounds in Poland where foreign investors participated[41] - from 26% of all rounds in 2013 to 57% in 2016 and it was already 69% during 2019. In the early 2010s, virtually no foreign LPs backed Polish VC funds and only a few international funds showed a genuine interest in local start-ups. And if they did, these were local regional funds (e.g. from Germany and Scandinavia) rather than large household names from the UK or the US. Things started to change somehow from mid 2010s and as of 2022, international funds accounted for 48% of all VC investments (by value)[42], although interest from global VC funds is still marginal at best. Typically, foreign funds tend to invest in later stage businesses and offer larger ticket size.

For a long time the country (and the CEE region more broadly) had a reputation of being a seed stage VC market with a few Series A and only incidental later round investments. The equity financing gap for companies that sought larger Series A, B or C rounds was particularly pressing up to late 2010s, especially as compared to the many funding options available at the seed and early-stage stage as ramped-up by investment from public programs[43]. For instance, in 2019, 94% of all transactions (253 deals) were at pre-seed/seed stage, typically of small size made from public funded programs and into start-ups with no product or zero revenue, with only 4% of transactions (12 deals) at Series A round and the remaining 2% (4 deals) at Series B-E rounds. In the early days entrepreneurs had to very often look outside of the home market[44] to raise later rounds. In recent years availability of Series A and B+ significantly increased though.[45]

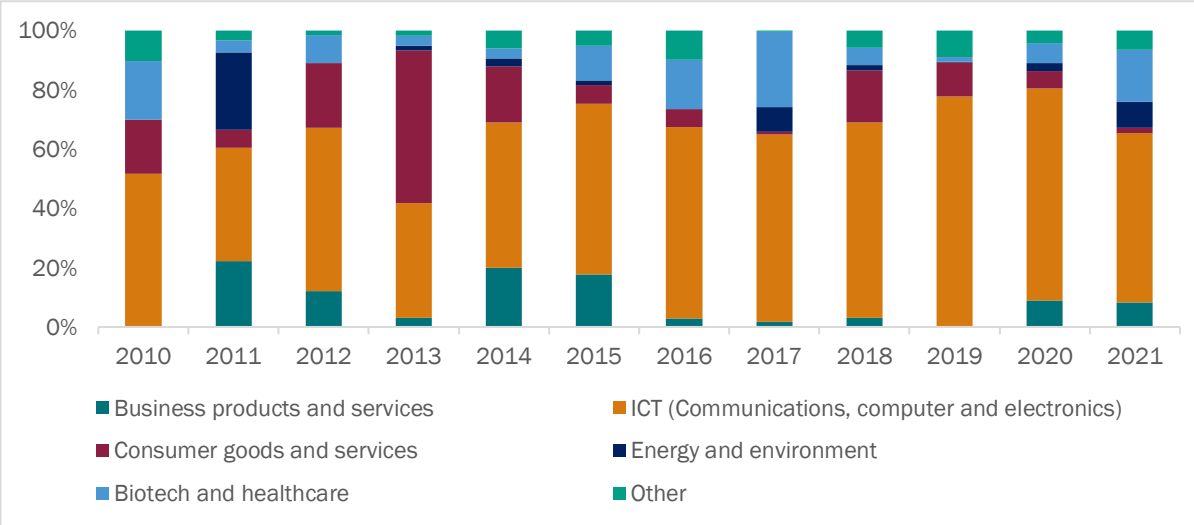
VC firms in Poland have traditionally bought into much smaller ticket size transactions than Western European and the US peers, although this has started to change lately. Until recently, the market gap started at circa €0.5 million[46]. Up to the late 2010s, the average funding ticket oscillated around €0.5 million, but by 2021 it rose to €1 – 1.25 million, a sign of maturing market, and is now expected to double by 2025, according to Startup Poland. [47] Generally, 'a big ticket size' in Polish context still means something different than on more mature markets with ~€2 million funding round being already considered as very sizable.

The ICT sector has consistently attracted the largest share of VC capital in Poland – between 57% and 77% of overall VC financing annually over the period 2015-21 (Figure 15). This has been in a clear contrast to some more developed VC markets in Europe and the US, and raised some concerns about the use of sizable public VC capital to back the wrong sectors. Generally, the investment trends followed by Polish VCs, angel investors, accelerators, and public institutions lagged behind those chosen by their European equivalents. For instance, the hottest sectors of

[39] PFR Ventures, 2023. Polish VC market outlook in 2022. Available at: https://pfrventures.pl/en/research.html
[40] Startup Poland, 2020. The Golden Book of Venture Capital in Poland. Available at: https://startuppoland.org/wp-content/uploads/2021/06/The-Golden-Book-of-Venture-Capital-in-Poland-2019.pdf
[41] Either investing alone or co-investing with Polish fund(s)
[42] PFR, VC in Poland in 2022. Available at: https://pfrventures.pl/en/research.html
[43] PFR Ventures, 2023. Polish VC market outlook in 2022. Available at: https://pfrventures.pl/en/research.html
[44] PFR Ventures and Inovo data
[45] According to Invest Europe data, *start-up* and *later stage ventures* investments in Polish companies between 2010-18 period, broadly translating into Series A and B+, stood at €224 million. Over the following period of just two years (2019-21), it rose to €312 million.
[46] Startup Poland, 2020. The Golden Book of Venture Capital in Poland - 2019. Available at: https://startuppoland.org/wp-content/uploads/2021/06/The-Golden-Book-of-Venture-Capital-in-Poland-2019.pdf
[47] Startup Poland, 2022. The Golden Book of Venture Capital in Poland – 2021. Available at: https://startuppoland.org/en/report/vc-golden-book-2021/

European VC in late 2010s were deep tech, fintech and healthtech. In Poland, however, analytics and the Internet of Things still dominated, even though these sectors were increasingly of little interest to the top European funds. Some argued that this translated into Polish funds backing industries at the seed stage that are not of interest to the European investment market, potentially cutting chances of portfolio companies to raise further rounds of financing.[48] A plethora of state-backed VC funds have been seen at particular risk of subsidizing lower-productivity start-ups.[49]

Figure 15: VC investments in Poland, by origin of company



Source: Invest Europe

Until recently one of the main the challenges was the limited number of experienced VC investment teams.[50] Despite a rapidly growing number of first time domestic funds backed often by public funds (NCBR, PFR Ventures), the teams were relatively inexperienced, sometimes struggling to add "smart" to "money".[51] For long time, there were also only a few Polish VC funds which could demonstrate a track record of successful exits. In addition, the common characteristic for many local funds was short investment horizon. According to the PFR, many VC funds had a strategy to exit after 3-4 years and 'patient capital' was rare to find.

Poland stands out in the CEE region with its well-educated and sizable talent pool, including quality programmers.[52] Alas, Polish entrepreneurs still somehow struggle to fully exploit this advantage and turn into businesses that gain traction beyond domestic or regional market. Limited product market fit to international, large-scale markets certainly did not help to attract foreign VCs. However, some pundits note a new wave of entrepreneurs, including some serial

[48] Startup Poland, 2020. The Golden Book of Venture Capital in Poland. Available at: https://startuppoland.org/wp-content/uploads/2021/06/The-Golden-Book-of-Venture-Capital-in-Poland-2019.pdf
[49] OECD, 2018. Financing innovative business investments in Poland. Available at: https://www.oecd-ilibrary.org/economics/financing-innovative-business-investment-in-poland_d7605f72-en;jsessionid=xI8RA_fsiwUE_n0bx7znqh5Ev-j3fB1qYCnltdy5.ip-10-240-5-120
[50] OECD, 2018. Financing innovative business investments in Poland. Available at: https://www.oecd-ilibrary.org/economics/financing-innovative-business-investment-in-poland_d7605f72-en;jsessionid=xI8RA_fsiwUE_n0bx7znqh5Ev-j3fB1qYCnltdy5.ip-10-240-5-120
[51] Startup Poland, 2020. The Golden Book of Venture Capital in Poland. Available at: https://startuppoland.org/wp-content/uploads/2021/06/The-Golden-Book-of-Venture-Capital-in-Poland-2019.pdf
[52] Financial Times, March 23, 2020. Warsaw tech start-ups eye broader horizon. Available at: https://www.ft.com/content/f8317902-49cf-11ea-aee2-9ddbdc86190d

ones, having a global mind-set, stronger sales and managerial skills and looking to address international markets from day one, especially in software, marketplaces and gaming sectors.[53] By early 2023, there was still no single unicorn that would originate from the local ecosystem compared to several in Estonia, for instance.

The limited number of profitable exits in Poland has so far deterred some VCs and put a drag on the development of the local ecosystem, in a stark contrast to more developed markets. According to Invest Europe data, the value of all type of divestments made by VC investors over the period 2015-21 was a meagre €85 million. While the value of all type of divestments over the same period in some other CEE countries were of a similar order[54], this was nowhere near more developed markets e.g. €869 million in Sweden, €3 billion in the UK and €3.2 billion in Germany.

Exits via sales to trade buyers has been the most common route for VCs in Poland while IPOs have been a rarity. Sales to trade buyers accounted for nearly two thirds (€55 million) of value of all exits over the period 2015-21 with a further 18% (€15 million) was from six exits via IPOs at Warsaw Stock Exchange (WSE), according to Invest Europe data. While Polish companies generally raise more funds on the stock market compared to their peers in the CEE region, low liquidity at NewConnect – a specialised platform for SMEs listings at WSE – has not helped to attract manyeligible VC founders and investors.[55]

EBRD VC investments in Poland

Although two direct VC investments in Poland made under VCIP I were not particularly large on their own, they still accounted for a meaningful share of all investments in the domestic VC market back then. Specifically, investments in DocPlanner and Explain Everything totaled €12.3 million over the period 2015-18 (Table 1). This corresponded to 7.6% of all VC investments (€162.2 million) made in the country over the same period, according to Invest Europe data. The share is even more meaningful if years 2015 and 2016, when bulk of investments were made, are considered in isolation. VCIP I investments in Poland in 2015 and 2016 accounted for 15.4% and 15.3% of all VC investments in the country respectively.

Table 1: EBRD's direct VC investments in Poland, 2015 – 2022, in € million

***Direct* VC investments**							
Investee	**EBRD initial investment**			**EBRD follow-on investment**			**Total EBRD investment**
	date	***value***	***round***	***date***	***value***	***round***	
DocPlanner	**April 2015**	**4.7**	**Series B**	**February 2016**	**4.6**	**Series C**	**9.3**
Explain Everything	**December 2016**	**2.4**	**Series A**	**July 2018**	**0.6**	**Series B**	**3.0**
Total							**12.3**

Source: EBRD

The value of the two direct VC investments exceeded the value of all other investments in Polish companies made via EBRD indirect VC operations since 1997 until now (Table 2). Overall, indirect VC investments targeted five funds that invested €54 million in 25 Polish start-ups, of which €11.6 million came from the Bank.

[53] PFR Ventures, 2023. Polish VC market outlook in 2022. Available at: https://pfrventures.pl/en/research.html
[54] €73 million in Hungary, €64 million in Baltics
[55] OECD, 2018. Financing innovative business investments in Poland. Available at: https://www.oecd-ilibrary.org/economics/financing-innovative-business-investment-in-poland_d7605f72-en;jsessionid=xI8RA_fsiwUE_n0bx7znqh5Ev-j3fB1qYCnltdy5.ip-10-240-5-120

Table 2: EBRD's direct VC investments in Poland, 2015 – 2022, in € million

Indirect VC investments						
Fund	**Vintage**	**Local PL fund [yes/no]**	**First time fund [yes/no]**	**Number of Polish companies financed**	**Total EBRD investment in the companies**	**Total fund investment**
Early Bird Digital East Fund	2021	no	no	1	0.7	4.8
Innovation Fund II	2020	yes	no	16	2.3	11.6
3TS CEE Fund III	2013	no	no	5	6.6	26.3
Baring Communications	1997	no	N/A	2	1.5	9.1
Info & Comm Tech & Ind Electronic Fund	1999	N/A	N/A	1	0.5	2.2
Total				**25**	**11.6**	**54.0**

Source: EBRD

Two VCIP I investments came when the local VC market was nascent and at the much larger ticket size than most of the VC investors were offering back then in Poland, helping to address a clear market gap. For instance, initial VCIP I investment of €4.7 million in DocPlanner in April 2015 was the largest ticket size investment in the history of VC market in the country back then and accounted for 75% of all Series B+ investments in Poland that year, according to Invest Europe data.

Virtually all investments in Poland made via EBRD indirect VC operations (24 out of 25) financed local companies from the ICT sector that historically attracted majority of all VC investments . DocPlanner and Explain Everything financed under VCIP I operated in a broadly defined consumer goods & services sector.

Both VCIP I investments in Poland namely, DocPlanner and Explain Everything, satisfied the criteria for additionality, with a particularly clear-cut case for the latter. The ability to offer considerably larger ticket size as part of both transactions was the biggest differentiator of the VCIP I, though not the only one (Box 7).

Box 7: VCIP financial and non-financial additionality in Poland

The EBRD's initial investment of € 4.7 million in DocPlanner took place in April 2015, a Series B round that according to one of the co-founders was the most challenging one out of all seven rounds that have taken place until now: "…It was a big jump for us from a Series A (€ 3 million) to a Series B (€ 10 million) round, the latter being historically one of the largest transactions, if not the largest one, on the Polish VC market back then. The ecosystem was much less developed than it is today and very few other investors would have been able to do the ticket size agreed by the EBRD. The EBRD led on this Series B round". Had the Bank not invested, DocPlanner expansion to Czechia and Türkiye that took place post Series B may have been scaled down or delayed, according to the founder. The subsequent follow-on VCIP investment at Series C round was less important.

VCIP's initial investment of €2.4 mn in Explain Everything took place in December 2016. By then, the company had explored various options e.g. it sought investors from Silicon Valley, albeit without the success given that the core business was located in Poland (rather than in the US), a no go for local funds. Within the CEE region, co-founders also engaged with local investors, including two advanced discussions with two regional funds, though the EBRD's ability to do larger ticket size turned out to be a decisive factor.

The evidence of non-financial additionality for both companies was not as pronounced as financial one. Some potential risk mitigating factor of the EBRD thanks to 'regional familiarity' was mentioned, though without specific examples. Its ability to provide support by 'commercial introductions' was seen as somehow smaller compared to established private VC funds.

The intention was to foster the development of the local VC markets by investing in companies that would eventually lead to highly successful exits and that, in turn, would generate a big bang effect and a wave of fresh VC capital following suit. 'Building markets for and by exits' - was one of the assumptions underpinning the VCIP I transition impact, even if not spelled out explicitly in the VCIP I approval document. In the Polish context, much to the disappointment of the local VC community, by early 2023 there was still no single unicorn that had originated from the local ecosystem. Meanwhile, according to Startup Poland, '...as of 2020, according to different research and definitions, CEE produced no more than 10-12 unicorns (of which several in Estonia) and a relatively small number of serial tech entrepreneurs with multiple exits who are the natural drivers behind ecosystem growth' . However, DocPlanner, which benefited from Series B and C investments under VCIP I (€9.3 million in total), is seen as likely to be among the first few unicorns emerging from the local market. According to local stakeholders like PFR and Start-up Poland, its rapid growth has received considerable attention and has been frequently cited in the VC space suggesting some demonstration effect.

Annex 4. Suggestions from Consultants and the External Reviewer

Chris Smart - General Partner at Acacia Capital Partners

Actionable Recommendations by C A Smart

The decision by EBRD to set up VCIP I in 2011 showed great insight and boldness in achieving development objectives, including digital transition impact, in the CoO's and it led the way for many MBD's on establishing venture programmes. As already described VCIP succeeded in its objectives by establishing a key component in the equity ecosystem through VCIP. This was done by bringing in experienced venture talent who put in the effort to integrate direct funding with the banking systems. However, the programme ran late because it took time for the VCIP team to establish networks in the CoO's through which to build dealflow and the time it took to establish a workable decision making system aligned with the EBRD. The ongoing and timely success of VCIP depends substantially on acquiring, retaining and motivating key experienced staff.

This is important in the following respects:

1. Venture capital is an international effort for sourcing and investing capital and the skills are in demand globally. Sourcing deals, however, depends on networks in the relevant local territories. Senior people build such networks of relevant contacts in sourcing both capital and deals over many years.
2. Effectiveness in selecting companies for investment and working with investment partners on structuring deals evolves over time.
3. Working on boards of companies to help put into effect strategies for success comes with experience.
4. Choosing when and how to exit is ultimately key in achieving the returns and the ability to influence investee managers is often key.

The thread that runs through the above points is that VCIP needs to compete for skills and talent in a well established competitive market; and that the experience built up with partner investors and the sourcing deals in relevant territories is key to establish and scale such an operation. The EBRD has its own remuneration and incentive structures, but it has become clear that these do not align with those prevalent in the venture industry and recently significantly experienced personnel have been lost as a result. It is also apparent from the results of VCIP I that while value has been built in the portfolio the rate of achieving exits is slower than might be expected in the industry. Both the failure to retain employees and to achieve timely exits are mitigated in the venture industry by providing participation in the profit generated in the form of "carry". The main recommendation is for EBRD to "evaluate the provision of incentives to its senior VCIP employees" to mitigate these issues.

There are several potential approaches to this evaluation:

1. Establish a more conventional venture incentive structure allowing senior team members to participate in carry from successful exits of the VCIP funds. This could conflict with normal banking pay mechanisms. Other corporate venture arms have grappled with these conflicts and have implemented hybrid solutions ranging through:
    a. Shadow bonus schemes relating to exit returns achieved; to
    b. Co-investment funds where senior team members both within VCIP and from the bank itself are given opportunities to coinvest alongside VCIP Or;

2. Spin out of the direct investment venture activities while retaining access and influence to align the fund more closely with internal objectives. This would allow a fully independent structure including full provision of carry without compromising the bank remuneration structures. Or;
3. Accept that continued direct investment be more focused on underdeveloped CoO's allowing a slower pace of development, which would align with a greater turnover of personnel resulting in there being less experience in the team; and the EBRD could increase the scale and stage of indirect investment through independent funds in those territories that are more advanced and need to be scaled more rapidly. Implicit in this approach is that the direct funding activity in any particular territory will have a limited life and ultimately EBRD will stop all direct funding in all CoO's over time.

Several MDB's have followed the EBRD in establishing direct investment activities. Some of these have scaled the activities significantly more than VCIP. Dealing with the remuneration incentives will have the largest impact on the success and continuity of the direct VCIP equity funding activity of the EBRD.

George Davis – Venture Partner at Hambro Perks

Recommendations to enhance the impact potential of VCIP

Context

Impact is central to the VCIP programme. There is clear evidence of the positive impact of the programme across the portfolio and the Bank's CoOs, and this has been highlighted through this report. The Bank's board approvals for the VCIP programme focus on transition impact metrics, with an emphasis on both competitiveness and resilience. From a macro perspective the programme has delivered significant positive impact.

Nonetheless, despite these successes there are opportunities to broaden the impact of the programme. These split into two broad areas. The first is a tactical list of ways in which the programme in its current form could be finessed. The second is a list of areas for consideration that reflect slightly more fundamental questions about the overall strategy of the programme.

1. Tactical improvements to driver greater impact:
    a. Tighten the impact goals of the programme to provide greater impact focus and measurability.

        - The programme's goals include some metrics that are unlikely to be true indicators of impact. For example, the count of patents is considered to be an indicator of having invested in innovative companies, yet the relevance of this varies widely by sector and is often a lagging indicator.
        - Some impact metrics for VCIP lack the specificity to be well measured. For example, companies are expected to 'demonstrate successful entrepreneurship' without clarity for how this can be measured.
        - It may be worthwhile for the VCIP team to take a fresh look at the existing set of impact metrics across all three programmes to assess if the metrics being tracked or detailed and data driven enough to deliver maximum impact value for the Bank.

    b. Embed impact further into the day-to-day management of the programme.

A number of approaches are available here. Suggestions for consideration include:

- Include impact metrics as core components of investment theses and investment committee materials to put impact even more strongly at the core of all investment decisions.
- Implement more regular reporting of impact metrics (e.g., as part of the half-yearly reports), and include company level recommendations on impact metrics. While the aspiration for VCIP I was to implement this, reporting has been inconsistent and lacking in the consistency and specificity required to drive meaningful visibility and progress.
- Implement an impact dashboard to be completed by all VCIP portfolio companies to be used both at portfolio company boards and within VCIP. This has been actioned to a degree in VCIP III but consistency and level of detail remain areas of opportunity.
- Broaden team capabilities to include an impact specialist focussed on driving greater impact across the portfolio.
- Conduct a detailed assessment of portfolio progress in key impact areas (e.g., gender equity) in order to define a new baseline for impact and suggest future initiatives for improvement.

2. Strategic considerations for further debate by VCIP and EBRD:
   a. Consider refocusing the geographic focus of the programme into CoOs where the greatest progress is yet to be made, and away from large scale ecosystems where VCIP impact is less likely to move the needle.

      - Over the lifetime of the VCIP significant progress has been delivered in key ecosystems such as Poland, the Baltic countries, and Türkiye. Given this progress the scale of the VCIP programme is unlikely to make a meaningful difference today.
      - Nonetheless other CoOs have shown progress but do not have large scale ecosystems. It is in these markets that VCIP could have the largest impact over the next decade in fostering innovation and ecosystem development. These markets include countries such as Morocco, Armenia, Ukraine, and many others (note: it is not the purpose of this recommendation to select those geographies).
      - This approach would be consistent with the Bank's focus on transition and would target as much capital as possible to the areas of greatest need within the mandate.

   b. Consider a fresh take on the VCIP strategy to encompass a greater sectoral focus on areas where the Bank is looking to make meaningful change, for example in areas such as climate change and gender equality.

      - VCIP should consider deploying further capital to sectors with longer-term horizons, more challenging investment cases, but larger societal and ecosystem impact. EBRD already has strategies in these areas, and the VCIP could be used to direct capital to the most innovative companies in the CoOs focused on these challenges.
      - It has been noted elsewhere in this report that the lack of investment in Cleantech is a drawback of the programme so far and there are likely other areas of innovation where VCIP capital would be transformational in targeting private sector capital and driving innovation.

c. Consider expanding the mandate of the indirect programme into fund managers with a clear focus on areas:

- The market has seen a proliferation of investment managers focused on specific investment themes in the markets where the VCIP is focused. The bank has made investments in these managers. Many of these managers have explicit impact-focussed mandates.
- The Bank should consider expanding its allocation to these managers both to drive impact and to drive dealflow for the VCIP team in impact-focused startups. This recommendation reflects a broader interest of the team in demonstrating greater collaboration across the Bank for the VCIP team.

Suggestions from the report of the external reviewer - Matthew Saal, Digital Financial Services at IFC

Impact measurement

Recommendation 1 could look at structural features, such as impact measurement at individual investment as well as portfolio level, that may help balance investments across sectors and markets.

Future VCIP programs might consider tracking not just employment numbers but employee trajectories (at least for those at the company at an early stage), to see whether VCIP seeds other companies through experienced staff as well as founders. Harder to measure, but potentially valuable, is whether other entrepreneurs have been inspired to create companies, and other tech workers inspired to work for local startups rather than large companies or foreign companies. Transition reporting on the tech sector could take up this topic through surveys.

Another critical aspect of a successful tech ecosystem is customers. There are (almost) always early adopter retail customers willing to try a new service, but corporates rely on long term supplier relationships and consistent service provision to maintain consistency of their own processes and outputs. Have customers, particularly corporate customers, in the domestic and in international markets become more willing to contract for products and services from startups in the Region?

Customers also matter where gender impact is concerned. Box 1 on page 14 indicates that VCIP III will monitor gender data in terms of ownership and staff of the portfolio companies, but is silent on monitoring the customer bases of the portfolio companies. Particularly where investments are in B2C or B2B2C technologies (e.g. e-commerce platforms), there is an opportunity – even an obligation – for the Bank to assess whether there is any gender based exclusion in digital development.

A Recommendation regarding efforts to measure and monitor company alumni and customer effects could enhance the impact of future VCIP programmes.

Streamlining and mainstreaming venture investing

It is a question of silo vs citadel. On the one hand, VC activity should stand apart from standard risk management practices and lengthy procedures; siloing can help. On the other hand, allowing VC to become too much of a citadel engenders a feeling of superiority and entitlement that can be negative for the bank as a whole but also for the unit's performance as its members come to

believe that only they can truly understand a country, market, business, or company. Very often the customers or competitors of a startup are the established companies that mainstream colleagues know well, but VC teams may not tap these insights from atop their citadel.

Recommendations under Lesson 2 might include further mainstreaming of investment in innovative companies across the Bank. One potential measure would be to make clear that other sector teams can and should explore venture investments, within their own risk envelopes and procedures. The VCIP team should be encouraged to provide technical support on structuring such projects, which might be important in the context of a specific country program or departmental impact goals even if they do not fit the VCIP portfolio criteria. A sector-led VC investment would not benefit from the VCIP envelop and its streamlining procedures, and would be subject to appropriate scrutiny. The hurdle for a sector team to do a venture deal should be high but not impassable. Encouraging sector teams to look at all stages of companies will close some of the skills gaps and create more interactions between sector teams and VCIP.