

Venture Capital Investment Programme

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EBRD EVALUATION DEPARTMENT



European Bank
for Reconstruction and Development

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Abbreviations

CE	Chief Evaluator
CEB	Central Europe and the Baltic States
CoOs	countries of operation
CRM	Concept Review Memorandum
DPI	Distributed to Paid in
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EQ	evaluation question
ESIF	Early-Stage Innovation Facility
ETCs	Early Transition Countries
EU	European Union
EUR	Currency of 19 out of the 27 member states of the European Union
EVCA	European Private Equity & Venture Capital Association
EvD	Evaluation Department
FRM	Final Review Memorandum
FY	fiscal year
ICT	Information and Communications Technology
IFC	International Finance Corporation
IPO	Initial public offering
IRR	internal rate of return
KEI	Knowledge Economy Initiative
LC2	Local Currency and Capital Markets
MDB	Multilateral Development Bank
OCE	Office of the Chief Economist
OECD	Organisation for Economic Co-operation and Development
OL	operation leader
pa	per annum
RO	resident office
SBIC	Small Business Investment Committee
SCF	Strategic and Capital Framework
SEMED	the Southern and Eastern Mediterranean
SME	Small and medium-sized enterprises
TMT	telecommunications, media and technology
VC	venture capital
VCIP	Venture Capital Investment Programme

Introduction

The evaluation of Venture Capital Investment Programme (VCIP) was included in the Evaluation Department's (EvD's) 2021 Work Programme and is scheduled for delivery in Q1 2023. To ensure that the evaluation is relevant and useful, EvD consulted the VCIP team while defining its scope.

EvD included an evaluation of VCIP in the Work Programme as its first stage is ready to be evaluated and given high demand among Board members. Specifically, venture capital investment time to exit realisation usually varies between 3 to 7 years. Between 2012 and 2018, the Bank invested in 15 companies, deploying EUR 68 million under this framework. So far, seven of these investments have been completed with four profitable exits. Amongst the remaining, eight are active projects and six had either approached or are about to approach 7 years since the initial investment.

Findings and recommendations of the evaluation will inform the implementation of the Bank's ongoing and recently introduced interventions in venture capital. At present, VCIP II is underway with 12 active projects with the total amount of Bank investments at EUR 111 million. Additionally, the Bank has put in place a EUR 120 million Venture Debt Framework in February 2021 and a EUR 250 million Venture Capital Investment Programme III (VCIP III) in February 2022.

The relevance of the evaluation will remain high going forward. In September 2020, Bank's shareholders unanimously agreed that digital transition needed to be one of the three crosscutting themes of its Strategic and Capital Framework 2021-2025 (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.

The evaluation team anticipates that the findings from the evaluation will be of relevance for the Board to, inter alia, acquire a comprehensive view of the VCIP and inform decision making about equity investments more generally. For Management, the evaluation will help to take stock of the results and inform the implementation of the ongoing facilities as well as the design of future facilities.

1. Overview of VCIP

Venture Capital Investment Programme (VCIP) is one of the several instruments that the Bank put in place to promote innovation in its countries of operation (CoOs). The launch of these instruments followed the Board Information Session in September 2011 (SGS11-266, EBRD and the Knowledge Economy - a multi-pronged approach to ICT and Innovation), at which the role of the Bank in financing innovation and promoting knowledge economies in its CoOs was reviewed.

Small companies in technology sectors in the EBRD region struggle to get the finance they need locally or from the Bank. Some end up taking their ideas outside EBRD region. This has been especially true for the companies at the start-up and early growth stages of the corporate lifecycle, given scarcity of VC funding in many EBRD regions (SGS11-266).

To address this problem, the Bank has sought to improve start-up/early-stage tech companies' access to suitable type of financing in their geographies. According to Enhanced Equity Approach 2021 (CS/FO/21-17), this includes direct venture capital investments through the VCIP, investments in venture capital funds (including through the Early-Stage Innovation Facility (ESIF)) and advisory support to early-stage companies and accelerators through the Star Venture Programme delivered by the Bank's Advice for Small Businesses team. Additionally, related policy objectives are set within the Local Currency and Capital

Markets (LC2) Strategy 2019-2024 (BDS18-210), and include, among others, establishment of regulatory sandboxes, regulations of technology-enabled operations and financing, and fostering cooperation among market associations and regulators to promote innovation.

The VCIP aimed to promote transition via market expansion, demonstration of new ways to finance activities and skills transfer as per the previous transition model operational until 2016. In the new Transition Concept Review (BDS16-181) launched in November 2016 these impact dimensions correspond to Competitive Transition Quality (market expansion and demonstration of new ways to finance activities) and Resilient Transition Quality (skills transfer).

1.1 Venture Capital Investment Programme I & II

VCIP I and VCIP II are the first and second frameworks dedicated to direct venture capital investments in technology sectors in CoOs. The Bank gave green light to VCIP I and VCIP II in September 2011 and May 2018, respectively. The Board approved each framework with an envelope of EUR 100 million, with a subsequent increase to EUR 150 million for VCIP II in November 2019.

The common and distinctive element of VCIP frameworks 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 EUR 10 million in tandem with an experienced venture capital co-investor (“Qualified Co-investors”) and acquiring a minority shareholding between 10 to 35 per cent in an investee. The VCIP I portfolio consists mainly of operations in Turkey, Russia, Poland, and other eastern European countries. Annex 1 presents a detailed list of all investments.

1.2 Expected results

VCIP I and II aim to address market barriers to venture capital investments. The approval document (BDS11-217) states that principal objective of the VCIP I is to support the development of technology innovation and its commercialisation and promote venture capital investments into the Region where there are scarce financing options for early and growth stage technology companies.

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

- (i) **Successfully deploy VCIP funds** in the Bank’s CoOs and help close the financing gap in the venture capital (VC) markets – as measured by portfolio indicators;
- (ii) **Demonstrate market expansion** via financing for innovation – as measured by profitable exits, increased revenue, employment, and number of patents filed by portfolio companies;
- (iii) **Encourage venture capital to increase its marginal presence in the EBRD region** – as measured by capital invested by co-investors, encapsulating new investors in follow-on financing rounds, and first-time investors in the EBRD region.

Additionally, the approval document states the following:

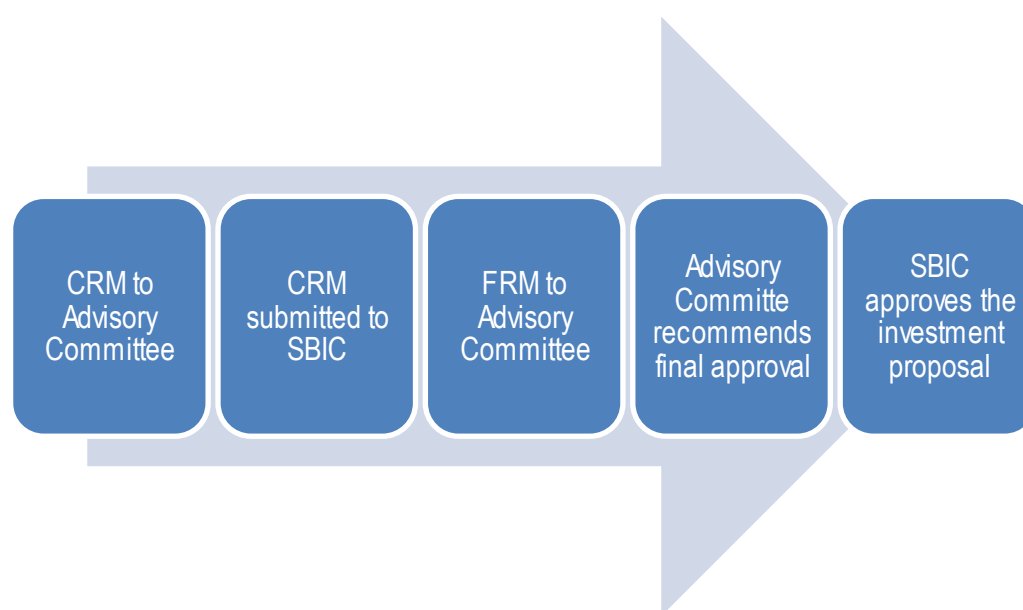
- **VCIP will aim to generate 20% gross IRR on the portfolio realisation.** The portfolio return will be benchmarked vs. European venture capital fund returns as reported by the EVCA (European Private Equity & Venture Capital Association).
- Assuming the Bank will co-invest in each investment with up to five investors, **VCIP has the potential to achieve the mobilisation of up to EUR 500 million for investments in innovative companies.**

1.3 Governance

A dedicated investment team within the TMT (telecommunications, media and technology) sector team sources, executes, and monitors the investments under the VCIP. This team consists of six investment professionals and a senior officer and is led by a director who reports to the director of the TMT team. In addition, the VCIP Advisory Committee supports this investment team by reviewing proposals and recommending investments and exits. The VCIP Advisory Committee consists of three external VC investors and an internal representative from the Equity team. The VCIP Advisory Committee meets on a regular basis, usually at least once a month.

The Board delegated the approval of sub-projects under the VCIP I, II, and III to Management. The process of VCIP project approval is illustrated in Figure 1. Before spending significant time on scrutinising a potential investment, the Operation Leader (OL) presents a Concept Review Memorandum (CRM) to the VCIP Advisory Committee. If approved, the proposal is submitted 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 VCIP Advisory Committee 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 Operations Committee for approval.

Figure 1: Approval process of VCIP sub-projects+



Source: EvD elaboration

1.4 Programme Monitoring

The Bank monitors the VCIP I and VCIP II at the project and framework levels. Both frameworks have an assigned Framework OL who ensures that the Bank implements the framework in accordance with the approval documents, provides guidance to the OLs of the sub-operations, and responds to any issues arising during implementation. OLs oversee mandatory client reporting and monitoring. Equity Risk Management and Impact teams are responsible for monitoring of risk and transition impact at the framework level, respectively.

1.4.1 Monitoring reports

The most recent available portfolio risk review is dated from 12 April 2022 and is based on FY2021 data. In short, the review notes that VCIP I Net Asset Value was EUR 244.1 million and receipts were EUR 53.4 million, resulting in a net Total Value to Paid-in of c. 4.4x. This is a marked increase vs. FY2020 when it stood at 2.0x. Nevertheless, the review emphasizes that executing successful exits would be of utmost importance going forward: **“The challenge now will be converting such unrealised gains into realisations. After 10 years since start of operations, DPI (Distributed to Paid in) is yet low at 0.8x.”**

The Bank undertakes a portfolio risk review semi-annually and there are 12 reviews in total.

1.4.2 Transition and other impact monitoring

The most recent transition impact monitoring review is from 14 April 2020. According to this review, the achievement of transition objectives is on track. It states that the VCIP I supported 15 companies across nine countries with most investments located outside the CEB (Central Europe and the Baltic States) region. Portfolio companies have exhibited high growth rates in terms of revenues and headcount (above the 20% targeted). Nevertheless, like the portfolio risk review, transition monitoring stresses that exits have been limited: **“although on average the framework has been quite successful, only 2 exits so far have been profitable, making this benchmark delayed.”**

The Bank undertook transition impact monitoring in 2016, 2018, and 2020. There have been three exits since the last transition impact monitoring report.

1.4.3 Operations Performance Assessments and Validations

As of now, there are no operation performance assessments and validations available for any of the VCIP I and II projects.

2. Evaluation Approach and Methodology

2.1 Scope

This evaluation will cover all projects that the Bank implemented under VCIP I. For a limited number of evaluation questions, and where possible and relevant, the evaluation might look at projects financed under the VCIP II¹.

2.1.1 Conceptual framework

The banking teams do not normally prepare a theory of change as part of the design of investment operations and programs, and therefore the evaluation team reconstructed a stylized theory of change that links inputs, outputs, outcomes, and impacts of the VCIP I (Error! Reference source not found.). This framework helps the evaluation team to conceptualise the evaluation and to provide clarity to others on key aspects being the subject of this evaluation.

The widely accepted classification for venture capital investment process consists of five main stages:

¹ The scope of the evaluation does not intend to cover the financial performance of the investments under VCIP II. However, where possible and relevant, the scope might include aspects of project selection, design and implementation of investments under VCIP II.

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- (i) **Sourcing:** This describes the initial phase of pipeline origination in which investors identify potential targets.
 - (ii) **Screening and evaluation:** Investors identify the companies with the highest likelihood of success and narrow the deal-flow funnel as efficiently and yet as thoroughly as possible.
 - (iii) **Due diligence and investment:** Preliminary offers are made with a term sheet that outlines proposed valuation, type of security, and proposed control rights for the investors. If the term sheet is accepted, investors perform due diligence. Subject to successful due diligence, final set of terms are negotiated, and formal contracts are signed in the final closing.
 - (iv) **Post-investment activities:** Investors with large-enough stake and 'hands-on' approach may typically have board or/and advisor representation and seek to add as much value as possible to accelerate the company's growth and performance.
 - (v) **Exit:** The exit process requires knowledge and skills that are somewhat distinct from the earlier investment and monitoring activities. Broadly, exit may take place via buy-out or IPO while some more liquid and developed markets may also offer an opportunity to exit via private equity secondary markets. Investors plan their exit strategies carefully, usually already at due diligence phase, and often in consultation with investment bankers (for larger transactions). The profitability at exit may further increase if there is significant competition for the deal.

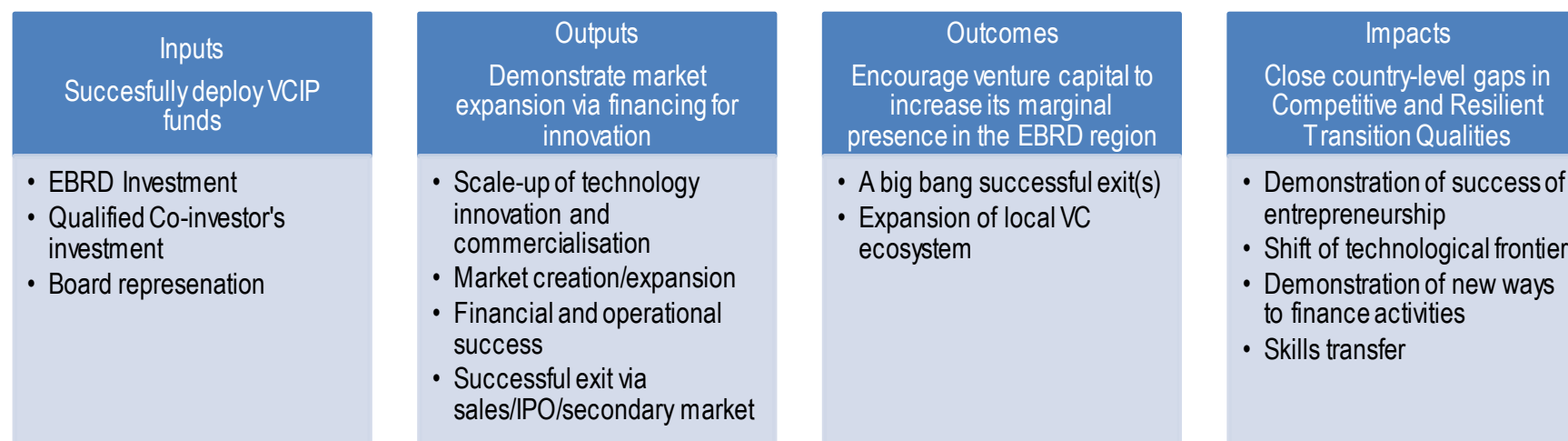
In case of VCIP, (i) sourcing takes place through either 'active pipeline origination' - based on searches executed in-house, or 'passive pipeline origination' - where deal leads come from external sources, e.g., other investors or consultants. The VCIP team records all leads in the deal log register that includes both active and passive origination. With respect to (ii) screening and evaluation, the VCIP team leads the process with final review and appraisal by the Advisory Committee. (iii) The due diligence and investment phase is led by the VCIP team in most of the cases and, otherwise by the Qualified Co-investors. VCIP team supports the investment structuring and due diligence processes. Finally, Qualified Co-investors, with inputs from the Bank, lead on (iv) post-investment activities and (v) exit with active VCIP support.

At approval, the Bank expected that these activities and inputs would translate into a series of outputs and outcomes that would contribute to the expansion local VC ecosystems. First, active and passive pipeline origination, in combination with deal log register, would help establish the pool of potential targets. Then, VCIP Advisory Committee and due diligence would facilitate the selection of the investments that have the highest potential to deliver on the overall objectives of the VCIP. Third, Qualified Co-investor(s), by virtue of their experience and expertise, would nurture the investee companies through the transfer of skills and know-how. Additionally, the Board representation of the Bank at the investee companies would act as another mechanism that supports skills transfer. Fourth, supported with the financial investments of the Qualified Co-Investor(s) and the Bank, these series of actions would lead to scaling-up of technology and its commercialisation, increased operational, and financial performance of the investees and, ultimately, successful exits. Nevertheless, at approval, objectives of VCIP I went beyond successful exits and aimed at development of local venture capital ecosystems via demonstration of new ways to finance start-up/early-stage technology companies. Hence, ultimately, the successful exits under VCIP are also intended to be an impulse facilitating increased presence of venture capitalists in the EBRD region where financing options for early and growth stage technology companies is still scarce.

The Bank envisaged that achievement of the transition objectives of the VCIP would help close gaps in Competitive and Resilient Transition Qualities. *Promotion and demonstration of success of entrepreneurship, shift of technological frontier and introduction of new types of products or processes* are suggested as the drivers of improvements in Competitive Transition Quality. *Improved corporate*

governance in portfolio companies and promotion of VCIP Qualified Co-investors where venture capital markets are in nascent stage are suggested as drivers of improvements in Resilient Transition Quality.

Figure 2: Astylized representation of inputs, outputs and outcomes of VCIP



Source: EvD elaboration

2.1.2 Evaluation questions

The evaluation will answer the overarching question of the Programme's progress towards its core objective:

To what extent did the VCIP *support the development of technology innovation and its commercialisation* and *promote venture capital investments in the Region where there are scarce financing options for early and growth stage technology companies*?

The evaluation will divide this overarching question into three specific evaluation questions (EQs). The evaluation team developed a detailed Evaluation Matrix for each EQ, which is provided in Annex 2. The EQs are:

EQ1: To what extent did the objectives and design of VCIP respond to the needs and priorities of local companies, venture capital ecosystem, and its stakeholders?

The evaluation will assess the relevance and appropriateness of the inputs that the VCIP put in place to address the challenges identified at the outset. Size of the VC financing gap and the relative size of the VCIP I will be assessed at the country level (subject to available market data). This will also include a review of the main design parameters of VCIP and assessment of the fit of these parameters, given specificities of local markets. This review and assessment will look at the coherence (complementarity) of VCIP with past and on-going EBRD interventions in venture capital, including the Bank's indirect venture capital investments, related technical cooperation, and policy engagement.

Financial and non-financial additionality will be covered under this question as well. This will mostly focus on an assessment of the Bank's role in (i) providing local co-investor support to global venture capital investors including structuring inputs and (ii) augmenting local venture capital syndication market. The evaluation will inquire additionality *ex ante* and *ex post*. Hence, the evaluation will assess *whether, at the time of project approval, the additionality claims were plausible*, and *whether there is evidence that the additionality statements were in fact borne out during implementation*.

EQ2: To what extent was the VCIP design and delivery efficient?

The evaluation will assess the efficiency of the VCIP along the dimensions of *deployment of funds, selection of target companies, their innovative and financial performance*, and *overall VCIP I financial performance*, recognising also an inherent and unusual risk – return nexus exhibited by the VC type investments. For the latter, the Bank's comparable indirect venture capital investments and, where available, data of comparable venture capital funds will constitute natural benchmarks for this assessment.

Additionally, the evaluation will review the governance of VCIP in terms of its contribution to efficiency. This will include availability of in-house expertise, due diligence and approval processes, relations with clients, monitoring and reporting, incentive structures, and engagement with other market players.

EQ3: To what extent did the VCIP contribute to development of technology companies via successful exits and increased availability of venture capital financing in the EBRD region?

First, the evaluation will inquire to what extent the VCIP managed to deliver its ultimate output, i.e., successful exits. Then, it will assess the incremental contribution of exits to the expected outcomes, i.e., *demonstration of new ways to finance activities* and *expansion of the local VC ecosystem*. Like EQ2, potential counterfactual scenarios may serve as natural benchmarks. The evaluation will bring together evidence to answer *what would have happened in the absence of the project; how the Bank's indirect investments delivered in similar circumstances*, and *how the comparable market payers performed during the same period*. However, as opposed to EQ2, with respect to the expected outcomes of the VCIP, the evaluation team recognizes that it can be difficult to attribute changes in the VC ecosystems to a few

successful (or unsuccessful) exits of the Bank. Therefore, the evaluation will present evidence to show a plausible and significant contribution by the VCIP to the observed changes at the market or country level – but not attribution.

2.2 Methods

This evaluation will rely on the following data collection and research tools: background document review, portfolio analysis, semi-structured interviews, econometric analysis, and country case studies.

Background document review

The evaluation team will review the Bank's internal data and documentation. This will include, inter alia, project and portfolio level monitoring reviews, the minutes of the Advisory Committee, available records in Deal Tracking Module, and others.

Besides, the evaluation team will continue to review external data and documentation as well. This will include academic and grey literature informing about venture capital financing gap globally and in EBRD region, and relevant documents published by national authorities and industry organisations, EU, and other IFIs. The evaluation team already completed part of the review during the preparation of this Approach Paper.

Portfolio analysis

Internal data related to the pipeline and portfolio of the VCIP I, VCIP II, and indirect venture capital investments would constitute the main sources for this analysis. This analysis will provide a descriptive overview of the profiles of pipeline and portfolio companies that the Bank directly and indirectly invested in.

Semi-structured interviews

Semi-structured interviews will be one of the main tools of collection of primary data for the evaluation. This will include interviews with the Bank's Board and staff, including the VCIP team, as well as consultants delivering the VCIP's activities. Additionally, in a limited number of countries (tentatively Poland, Greece, and Turkey) the evaluation team will interview counterparts of the VCIP including founders, Qualified Co-Investors, other local and global investors, and representatives of industry organisations. This will require field missions to allow in-person interviews with relevant stakeholders and will benefit from inputs of expert consultant(s).

Econometric analysis

The evaluation team will match the Bank's pipeline and portfolio company data with the commercial data available from Dealroom – a company that generates and sells information on investments and funding, founding members and individuals in leadership positions, mergers, and acquisitions. That will allow the evaluation team to put side-by-side various performance metrics of the Bank's VCIP I, VCIP II, indirect venture capital investments, as well as comparators in EBRD region.

The evaluation will analyse quantitative data to

- understand how the profile of VCIP portfolio differs from VCIP pipeline in terms of ex-ante investee characteristics. This part of analysis will use both the VCIP I and VCIP II data.
- undertake an anti-portfolio analysis for VCIP I to illustrate how the financial performance of portfolio companies compares to those companies that did not benefit from Bank's support.

- compare VCIP I financial performance (e.g., gross/ net IRR) against relevant customised benchmarks²
- understand to what extent the VCIP successfully attracted private investors to follow-on rounds of financing.

Further, the evaluation will inquire about aspects of technology innovation with both qualitative and quantitative methods. To this end, amongst others, the evaluation will look at the nature of technological innovation pursued by investees and how spending and headcount for research and development as well as patent applications varies within the VCIP portfolio.

Country case studies

The evaluation will further inquire about the results of VCIP through the medium of case studies. Three country-level venture capital ecosystems will be selected as cases to support evaluative analysis along the evaluation questions. The analysis will look at the VCIP's contribution to these ecosystems during all stages - from sourcing to exit as well as the programme's ultimate objective, i.e., increased presence of venture capital in EBRD's region. To this end, the evaluation team tentatively considers focusing on venture capital ecosystems in Greece, Poland, and Turkey. 15 out of 28 investments under the VCIP I and II (58% of total investment under both frameworks) are in these countries. Nevertheless, the evaluation team will consider a range of factors, including variation in innovation policies, size of VC markets, regional diversity, and sector heterogeneity, while selecting the list of final country case studies.

Altogether, these country cases will enable an analysis of the market fit of the VCIP offering as well as its complementarity with other products of the Bank. Additionally, these cases studies will allow for contextualising examples of efficiency and effectiveness of the VCIP. These will be essential for identifying useful lessons and specific patterns that might be applicable in the future engagements.

2.3 Potential problems and limitations of the evaluation

Within the context of ongoing Covid-19 public health crisis, the evaluation will comply with all existing and newly emerging Bank and national restrictions on travel and in-person meetings. If the team's ability to travel to countries will be constrained, necessary arrangements will be made to substitute in-person meetings with videoconferencing. This, however, could affect the depth of insights gathered throughout the interview program.

The ongoing war on Ukraine is likely to impact the scope and coverage of the evaluation. Out of 28 framework projects under the VCIP I and VCIP II, six are in Russia, Ukraine, or Belarus. Therefore, the evaluation team will liaise with the VCIP colleagues to adjust the approach to reflect the current circumstances. Consequently, this may lead to some parts of the scope being removed from the analysis if critical gaps in data cannot be offset.

2.4 Other relevant evaluation work

Until now, there has been no evaluative evidence available on the performance of the Bank's interventions in the venture capital sphere. Nevertheless, EvD put forward findings in its past evaluations that may still be considered informative. These touch upon, among others, the Bank's ability to exit as a minority shareholder, relative financial performance of direct equity vs. indirect equity, and value added by the nominee directors:

² Analysis will take into consideration number of caveats including vintage year of comparator funds, region, and differences in approaches to calculate IRR.

EvD's Special Study on Equity Operations (CS/AU/17-41) noted the following:

- **Private equity funds consistently outperform direct equity investments** by about 3% pa, and this amount would increase by a substantial margin if EBRD management costs were considered.
- **There are concerns about the large number of non-performing minority direct equity investments;** EBRD has limited ability to add value or exit, and incentives for management to exit are weak as it would crystallize losses, even if it was a better use of capital.
- EvD's Operation Evaluation on Enforta (CS/AU/17-27) – a company that provides broadband telecommunication solutions based upon wireless and other state-of-the-art technologies in Russia – made the following observations: “An increase in early-stage equity investments, which is targeted in the Knowledge Economy Initiative (KEI), raises the risk that the Bank will be left with a series of small equity positions that it cannot exit. It is recognised that the timing of both entry and exit are the most critical and challenging aspects of equity investments. The innovative SMEs targeted by the KEI are not necessarily broadband providers but nevertheless sharing some elements in common with the investment in Enforta.”

Finally, EvD's Special Study on Nominee Director Programme CS/AU/21-23 found the following:

- In case studies where value creation plans, corporate governance action plans and transition objectives were well defined and implemented, projects tended to show successful implementation, with a high IRR. **Nominee directors were able to contribute significantly to success throughout their tenure.**

More generally, there is also a body of evaluation evidence on direct and indirect equity investments conducted by other MDBs (Multilateral Development Banks). However, little of it has addressed direct venture capital investments. This makes this evaluation particularly valuable.

3. Administrative arrangements

3.1 EvD team, consultants, and peer review

The evaluation team includes Alper Dincer, Principal Evaluator, and Oskar Andruszkiewicz, Senior Evaluator with Christian Groeber, Intern, providing analytical support.

In addition, the evaluation team plans to set up 'Experts' Panel' to strengthen the technical expertise credentials and to bring in a fresh and independent perspective. The panel will include two seasoned VC practitioners who will support the evaluation team in delivering a number of tasks, including design of the research tools, critical insights into the process of data interpretation and analysis, as well as review of the Draft Final Report. The evaluation team will pay utmost attention to avoid any conflict of interest while selecting the relevant experts. To this end, the evaluation team will consider identifying experts with little or no engagement in the EBRD region and/or currently inactive in the VC market. Additionally, one consultant with relevant expertise in econometric modelling and quantitative venture capital data will support the evaluation team in designing and conducting econometric analysis, as outlined in Section 4.2.

The evaluation team identified Carlos Stagliano (Senior Evaluator, IFC) and Matthew Saal (former Head of Digital Finance, IFC and former Associate Director at Local Capital Market Development, EBRD) as potential peer reviewers. In addition, one more peer reviewer from either EIB or a bilateral development finance institution with a strong presence in venture capital will be confirmed at a later stage.

3.2 Management counterparts

Management along with the Board of Directors are the main counterparts for this evaluation. Engagement with the VCIP team during the delivery of this evaluation is crucial. Additionally, the evaluation team will be engaging with equity bankers, including those based in relevant ROs, Digital Hub, Capital and Financial Markets Development team, OCE, and Impact specialists (economists from former Economics, Policy and Governance). With respect to management review of the draft evaluation, EvD will follow the established protocol of communication with two focal points – the Banking Portfolio Department and the County Strategy Coordination and Results Management Department.

At the same time, given the nature of the evaluation, engagement with the external stakeholders, particularly Qualified Co-Investors and local partners, will be also instrumental and the evaluation team will make an effort to do it in an efficient manner, in close collaboration with the VCIP team.

3.3 Timetable

Milestone	Date
Evaluation kick off	March 2022
Approach Paper approved	August 2022
Consultants recruited	August 2022
Field visits completed	October 2022
Report drafting	December 2022
Draft Report circulated internally	January 2023
Draft Report cleared by Chief Evaluator (CE) for circulation to external peer reviewers	January 2023
Draft cleared by CE for Management comments	February 2023
Final Report approved by CE	March 2023
Distribution of final report to Board and within the EBRD	March 2023
Communication of findings internally and externally	March-May 2023

3.4 Deliverables and dissemination

The main deliverable is this thematic evaluation report for up to 35 pages with findings, lessons, and recommendations. Additionally, the evaluation team will prepare: a number of presentations will be prepared, including for the meeting of the Board's Audit Committee and Bank-wide event; evaluation summary; flyer; social media and intranet posts.

The newly hired Principal in charge of knowledge management in the EvD will co-design and co-ordinate the communication plan. The list below outlines tentative activities that the EvD could potentially undertake throughout the period from March to May 2023:

- An event, in the format of EvalTalks, bringing together EvD, the Board, the VCIP team, and the Digital Hub, which could include
 - A presentation of findings from the evaluation
 - Take-aways of the VCIP team from the evaluation and reflections on the VCIP II/III and Venture Debt Framework

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- A forward-looking assessment from the Digital Hub supported by evaluation findings and within the context of the Bank's Approach Paper to Accelerating the Digital Transition
 - An evaluation seminar on venture capital/ equity/ digitalisation that the EvD would host in EBRD's HQ with participation of evaluators from selected MDBs and other relevant organisations. NB: there is an on-going equity/quasi-equity evaluation of EIB Group with a tentative completion date around March 2023. Strong interest to co-organise such seminar has been already shared by the EIB team.
 - Participation of the evaluation team at an event hosted by Private Sector Development Research Network, including presentation of findings from the evaluation.

3.5 Budget

The implementation of the various stages of this evaluation will require fieldwork and external expertise. The total budget for this evaluation, anticipated at this stage, is GBP 75,000 and comprises:

- Consultancy budget of GBP 65,000, including fees for members of the Experts' Panel and econometrics consultant of GBP 45,000 and GBP 20,000, respectively.
- Travel budget of GBP 10,000.

Annex 1: Project data

Op Id	Op Life Cycle Name Current	Operation Name Current	Original Agreement Sign Date	Completion Date	Net Cumulative Bank Investment (EUR)	Proceeds (EUR)	Country Name Current
44026	Disbursing	VCIP - KupiVIP Holding	29/05/2012		7491989		<REGIONAL>
44913	Completed	VCIP - Evim.net	13/06/2013	30/09/2016	1698801	0	TURKEY
44832	Disbursing	VCIP - INVIA Travelata	27/05/2014		4300065		RUSSIAN FEDERATION
46125	Disbursing	VCIP - WEBINAR	08/07/2014		2772730		RUSSIAN FEDERATION
46399	Completed	VCIP - Trendyol	02/09/2014	08/08/2018	6497112	29400000	TURKEY
47236	Disbursing	VCIP - DocPlanner	30/03/2015		9343431		POLAND
47436	Disbursing	VCIP - Trafi	08/05/2015		5481733		LITHUANIA
47518	Completed	VCIP - GoOpti	23/09/2015	16/11/2020	2824814	0	SLOVENIA
47120	Completed	VCIP - Deposit Photos	06/11/2015	10/03/2022	3666359	8900000	UKRAINE
46781	Disbursing	VCIP - Onedio	23/12/2015		1963993		TURKEY
48718	Disbursing	VCIP - Explain Everything	23/11/2016		3029677		POLAND
49099	Disbursing	VCIP - PandaDoc	02/05/2017		7802819		BELARUS
49551	Completed	VCIP - Pollfish	29/11/2017	23/02/2022	2983802	9000000	GREECE
49097	Completed	VCIP - Targetprocess	15/03/2018	28/09/2021	2637666	6100000	BELARUS
49705	Disbursing	VCIP - Basharsoft	13/04/2018		3869468		EGYPT
50753	Disbursing	VCIP II - Plum	14/02/2019		4738259		GREECE
50577	Disbursing	VCIP II - Modanisa	28/02/2019		8887149		TURKEY
50991	Disbursing	VCIP II - Zoovu	14/05/2019		6734260		POLAND
50847	Disbursing	VCIP II - Allset	12/06/2019		6739795		UKRAINE
51133	Disbursing	VCIP II - PicsArt	19/06/2019		9226691		ARMENIA
51034	Disbursing	VCIP II - oBilet	09/08/2019		5448854		TURKEY
51372	Disbursing	VCIP II - Causaly	18/10/2019		2065114		GREECE
50900	Disbursing	VCIP - Hazelcast	07/11/2019		6797172		TURKEY
52161	Disbursing	VCIP II - Infermedica	14/07/2020		5392400		POLAND
51608	Disbursing	VCIP II - Scalarr	16/11/2020		2524823		UKRAINE
52567	Disbursing	VCIP II - DG	19/03/2021		8797009		TURKEY
52634	Disbursing	VCIP II - Marti	16/06/2021		8425309		TURKEY

Annex 2: Evaluation Matrix

OECD DAC criteria	Evaluation Questions	Judgement Criteria	Indicators	Methods and sources of data
Relevance and Coherence	1. To what extent did the objectives and design of VCIP respond to the needs and priorities of local companies, venture capital ecosystem, and its stakeholders?	1.1 Alignment between VCIP I and the needs and priorities of local venture capital ecosystems and its stakeholders	- Gap in equity financing for innovative and high growth technology SMEs [country/sub-region disaggregation, where possible] and evidence of any ex-ante market diagnostics - Relative size of the VCIP I cf. overall size of the VC market in the EBRD CoOs [back in 2011-12] - Relevance of the key VCIP I features including: - o choice of instrument and its fit for local markets - o geographical focus including geographical diversification - o stage of investment cf. local demand - o sectors, including their definition and technological profile of investees - o size of target companies - o choice of co-investment approach including: ▪ selection criteria of 'VC qualified co-investors' ▪ minority investor status and passive versus active approach to portfolio/ investees management/value creation ▪ degree of alignment between qualified co-investors strategies and EBRD vision and objectives - o investment period [and its realism, ex-post] - o average ticket size cf. local demand - o exit strategy including its relevance given characteristics of local markets; design of contractual terms maximising Bank's control over exits' options - o other relevant aspects of investment strategy e.g. its detail, existence of 'drifts' or lack of thereof	Document review - VCIP I, II, III proposals [BDS11-217, BDS18-091, BDS22-010] - Selected Management reporting to the Board of Directors [e.g. VCIP Board Updates and Information Sessions, Enhanced Management Equity Report, 2021] - Relevant past EvD and other MDBs' evaluations of equity investment programs - External literature review consisting also of relevant financial press and grey literature Key-informant interviews - EBRD VCIP I team - EBRD Equity Fuds and ICT teams - Advisory Committee Members - Qualified co-investors - Board of Directors - Selected VC experts from other MDB - Internal EBRD departments such as Digital Hub and Capital and Financial Markets Development Portfolio & market data analysis - VCIP I & II portfolio data - Market data on local VC industry Country-level case studies - Selected VC funds and founders in the country with and without track-record of collaboration with the EBRD - Sector associations - Public authorities (such as Ministry of Innovation)
		1.2 Additionality of VCIP I and its coherence with existing venture capital interventions of the Bank and other MDBs	- Provided local co-investor support to global venture capital investors - Augmented local venture capital syndication market - A comparison analysis between VCIP I, the Bank's other interventions in venture capital and selected direct equity investment vehicles of other MDB focusing on selected features of the vehicles	

Efficiency	2. To what extent was the VCIP designed and delivered in an efficient way?	2.1 Efficiency of VCIP I deal sourcing, due diligence and final selection including qualified co-investors	- Efficiency of the approach to <i>deal sourcing</i> including balance between 'proprietary' and 'intermediated' deal flows - Efficiency of <i>due diligence</i> and <i>approval</i> process, including collaboration between EBRD VCIP Team and VCIP Advisory Committee, and Qualified Co-investors - General efficiency of collaboration with Qualified Co-investors (post-investment) - Overall adequacy of the ex-ante risk assessment and mitigation measures - Alignment of the incentives for the investment team with VCIP objectives [e.g. compensation structure and level vis-a-vis the market offer]	Document review - Delegated approval reporting sheets for each deal - VCIP I deal log register Key-informant interviews - EBRD VCIP I team - EBRD Equity Fuds and ICT teams - Advisory Committee Members - Qualified co-investors - Investees - Internal EBRD departments such as Digital Hub and Capital and Financial Markets Development
		2.2 Efficiency of VCIP I funds utilisation	- Utilisation of available funds under VCIP I - o Ratio of earmarked investment amounts to VCIP I capital allocation over investment period - o VCIP I committed but uninvited capital as of March 2016 and 2019, and Jan 2022 - o Ratio of disbursements to earmarked investment amounts - o Ratio of realised & unrealised earnings to VCIP I capital allocation - Number of investments under VCIP I against initial target of 15 companies - IRR, TVPI and DPI of the VCIP I against initial target - Performance of the VCIP I compared to vintage year benchmarks for both: - o General universe e.g. European VC funds returns reported by EVCA - o Customised benchmarks for the region, including top quartile standing	Document review Key-informant interviews - EBRD VCIP I team - Advisory Committee Members Portfolio & market data analysis - VCIP I & II portfolio data - Benchmarking analysis based on Crunchbase data and the Bank's indirect VC investments - ETI and PTI analysis
		2.2 Efficiency of VCIP I promoting technology innovation	- Ratio of spending on research and development (R&D) to sales in VCIP I portfolio - Ratio of R&D headcount budget to sales in VCIP I portfolio - Percent of capital invested in innovation activities - Number of patent applications in VCIP I portfolio relative to comparable companies - Evidence of VCIP I relative contribution to skills and know-how transferring to investees e.g. as viewed by investees' management	Document review Key-informant interviews Crunchbase and PATSTAT data Country-level case studies

				- Selected VC funds and founders in the country with and without track-record of collaboration with the EBRD - Sector associations - Public authorities (such as Ministry of Innovation)
Effectiveness	3. To what extent did the VCIP contribute to development of technology companies via successful exits and increased availability of venture capital financing in the EBRD region?	3.1 Exits	- Number of exits under VCIP I against initial target - Deal level analysis of all successful exits and write-offs to flesh out key factors and lessons	Portfolio & market data analysis - VCIP I & II portfolio data - Benchmarking analysis based on Crunchbase data and the Bank's indirect VC investments Country-level case studies - Sample of deals including also all exits and write-off(s) under VCIP I Key-informant interviews - EBRD VCIP I team - Advisory Committee Members - Qualified co-investors - Selected VC funds in the Region with no track-record of collaboration with the EBRD - Investees Country-level case studies - Selected VC funds and founders in the country with and without track-record of collaboration with the EBRD - Sector associations - Public authorities (such as Ministry of Innovation)
		3.2 Extent to which VCIP I contributes to outcomes	Contribution to increased presence of venture capital in the EBRD region - o Type and number of qualified co-investors and volume of investment mobilised by VCIP I [including number and volumes for 'global' co-investors] - o Evidence of crowding-in third party investors - o Evidence of the EBRD's financing to close the transaction - o Time of entry of the VCIP I: first round [e.g. EBRD's anchor investor role and any signalling effect] vs investment later in the game - o Increased private investors in follow-on rounds - o New VC investors in EBRD regions	