

RISIS Policymaker Session

Democratising access to smart money in the EU: evidence from the VICO dataset

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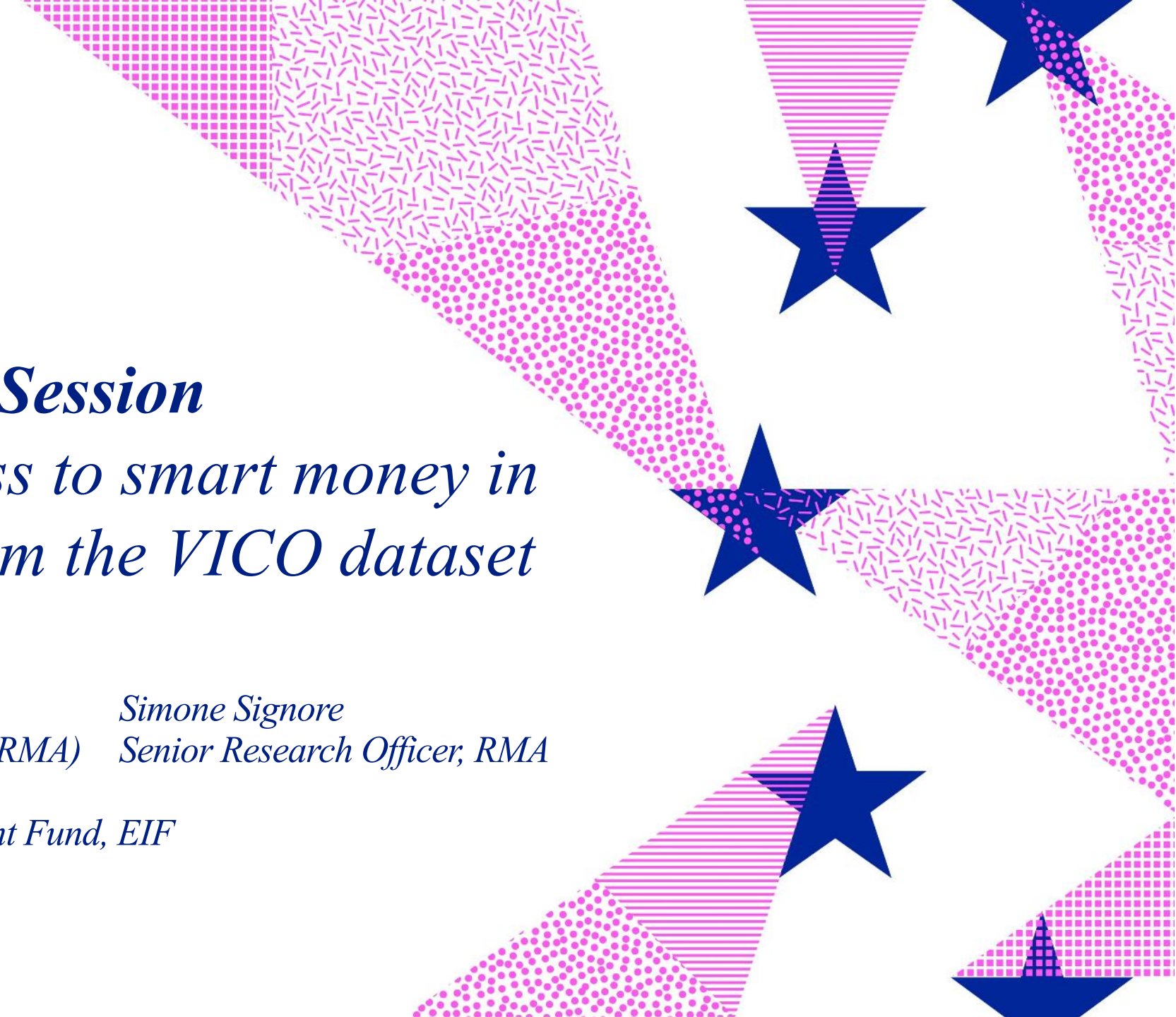
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Outline

- *EIF at a glance*
- *Research & Market Analysis (at EIF)*
- *Impact assessment*
- *Discussion of RISIS Policy Brief #7*

EIF, a unique approach

*An EU body, dedicated to
improving access to finance
for small businesses.*

*We do not invest or lend
directly. We are not a bank.*

*We use financial instruments
to address gaps, foster
sustainability, multiply
resources and in doing so,
improve access to finance.*

Our shareholders

We have a diverse public and private shareholder base

European Investment Bank (EIB)

69.89%

European Union, represented by the European Commission (EC)

21.55%

38 Financial Institutions from European Union Member States, the United Kingdom and Turkey (F. I.)

8.56%

Austria



Bulgaria



Croatia



Czech Republic



Denmark



France



Germany



Greece



Hungary



Ireland



Italy



Luxembourg



Malta



the Netherlands



Poland



Portugal



Slovenia



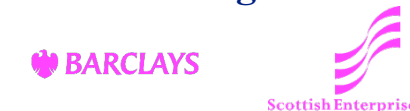
Spain



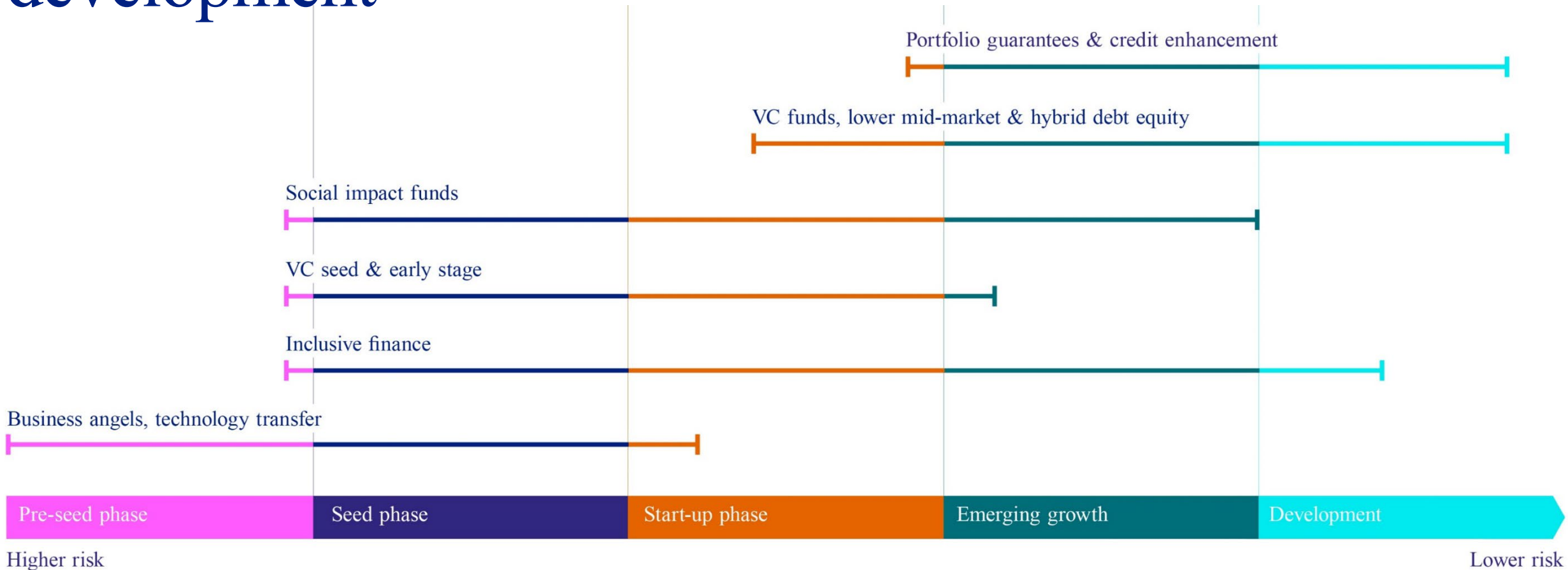
Turkey



United Kingdom



Our products help small businesses at every stage of development



Research & Market Analysis, RMA

EIF's specialist for
applied research,
market analyses and
economic impact
assessment

Advisor, focused on
SME finance and
covering the whole
range of EIF's
activities

A key element of
EIF's strategic
development

Contributor to EIF's
external positioning

Part of various
research networks

Who are
we?

RMA : 4 main pillars

a) Market analysis and information

General market assessments, policy & strategy papers

Surveys (VC, BA, LMM)

Internal provider of market information

b) Impact assessment (ImA)

*Quantitative Economic impact assessment (ex-post)
Surveys (VC, BA, LMM) on EIF's value added*

Involvement in internal and external ex-post evaluations & audits (EV, ECA, etc.)

SME Access to finance market assessments (ex-ante)

c) Publicity

*EIF Working Papers
Third party papers for external positioning*

Subscribers, web blogs, social media

Presentations, external working groups, etc.

d) Cooperation

Relationships with various EIB teams (Economics, Advisory, Institute, EV etc.)

Cooperation / exchanges with external stakeholders

Joint research projects with external researchers



Impact Assessment - EIF guarantee activities

In the six years, RMA analysed the real effects of its guarantee instruments, via four different publications:

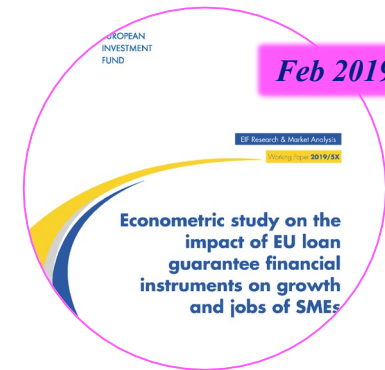
*Central, Eastern and
South-Eastern Europe
(CESEE)*



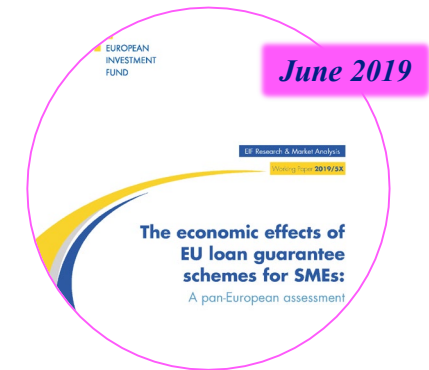
France



*Italy, Benelux
and the Nordics*



*Pan-European
assessment*



Impact Assessment - EIF VC activities (1/2)



The European VC ecosystem

“EIF had a positive significant crowding-in impact on European VC in the aftermath of the recent economic crisis”



Financial growth and cluster analysis

“20% of EIF-backed companies grew more than fourfold the first 5 years after investment”



Exits, IPOs and unicorns backed by EIF

“EIF supported 50% of currently existing European unicorns”



EIF-supported innovation

“In 1996-2012 EIF supported returns from patented innovations for a total estimated volume of EUR 22.3bn – 28.3bn”

Impact Assessment - EIF VC activities (2/2)



The economic impact of VC supported by the EIF

“Higher capitalisation levels, higher revenues and higher job creation of start-ups supported by the EIF compared to non-VC-backed firms.”



The VC Factor

“Almost half of high-growth start-ups would have experienced significantly lower growth or defaulted without VC”



Exit and innovation outcomes

“EIF VC-invested start-ups were three times more likely to participate in an M&A deal and/or experience an IPO”



EIF's role in the eco-system



- *In the 2007-2018 period, about 1 every 12 euros invested in European start-ups were provided by the EIF;*
- *Due to the EIF's intermediated model, this translated to up to 40% VC deals in EU and UK supported by the EIF.*
- *An important question given the above: what is the impact?*

Investment intensity:



Impact of EIF VC

I. Economic growth

- **Counterfactual study #1:** EIF-supported VC financing to 782 firms vs counterfactual group of non-VC-backed companies:
 - Faster growth (assets) of start-ups supported by the EIF compared to non-VC-backed firms.
 - Higher capitalisation levels, higher revenues and higher job creation in the first five years following the VC investment. We also find higher investment and borrowing levels.

II. Exit environment

- **Counterfactual study #2:** EIF-supported VC financing to 782 firms vs counterfactual group of non-VC-backed companies:
 - three times more likely to participate in an M&A deal and experience an IPO compared to similar, non-VC-backed firms.
 - doubling of the patenting rate, compared to counterfactuals.

III. VC Ecosystem

- **Regional analysis of 223 NUTS-2 regions in 2007-14:** early stage VC investment volumes supported by the EIF vs early and later stage volumes not supported by the EIF:
 - No evidence that EIF had a crowding-out impact on other VC investors.
 - Some evidence of crowding-in: a 1% increase in EIF activities was linked to a 0.9% increase in investment volumes of other market players three years thereafter.

Discussion

*Democratising access to smart
money in the EU: evidence from
the VICO dataset*

Outline of the paper

I. Research question & data

- Agglomeration patterns of VC-backed start-ups in the EU, UK and Israel
- Sector effects in the geographical distribution of VC
- Innovative RISIS-VICO dataset combining several commercial data sources

II. Findings

- Uneven distribution of VC investments, with large metropolitan areas (LMAs) representing the lion share of VC activity.
- Increasing concentration of VC activity into LMAs
- Significant differences across sectors in terms of agglomeration patterns

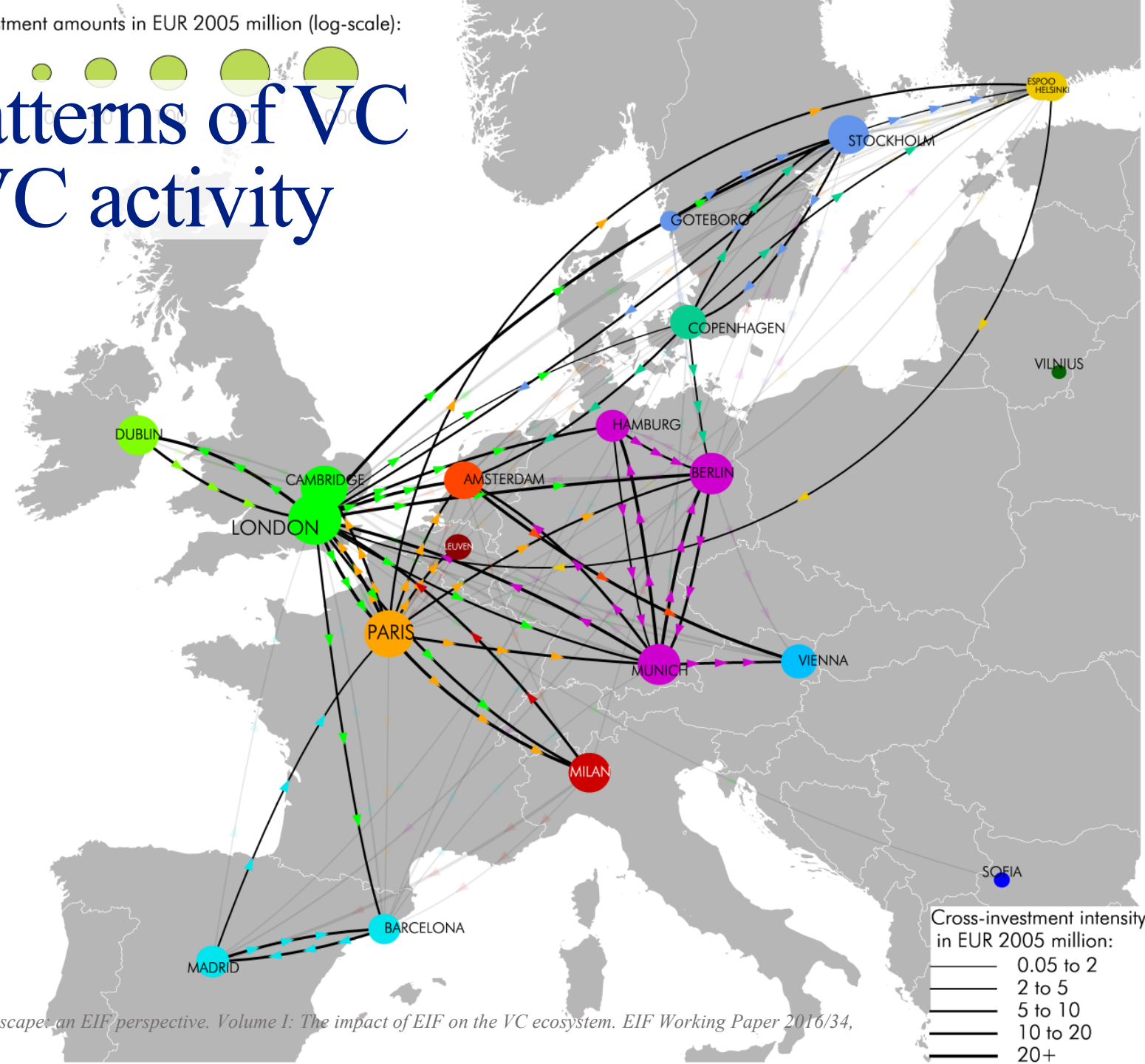
III. Discussion points

- Agglomeration patterns of VC firms and “communicating hubs”
- Beyond sectoral differences: heterogeneity in the growth patterns across regions
- Opaqueness of VC industry and data quality: a cautionary tale

#1: Agglomeration patterns of VC firms partly explain VC activity

I. European VC hubs

- In Krämer-Eis et al. (2016), VC hubs communicate: consistent cross-investment routes among mature hubs.
- Hubs originated 83% of all invested amounts. 63% invested within national borders, 37% cross-border.
- Through promotion of cross-border oriented VC firms, EIF supports the build-up of an European VC market.



#2: Growth performance and geographical heterogeneity

I. “Bio-diversity” of the EU VC ecosystem

- In Signore (2016), some hubs seem biased towards sale-driven growth (e.g. in Berlin, Munich, Milan, Dublin), other hubs seem to be more specialised in patent-driven growth (e.g. Paris, London, Amsterdam).
- The geographic distribution of out-performing start-ups hints at the presence of national and/or regional specialisation of growth types.

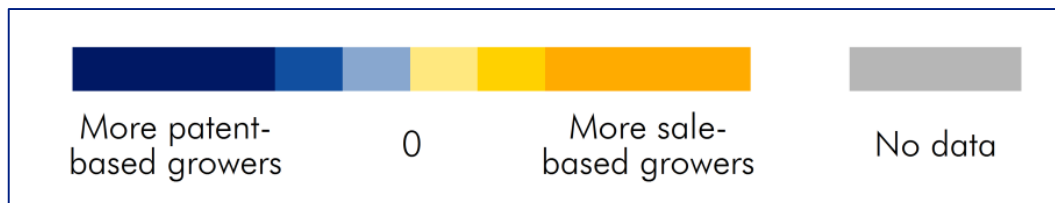
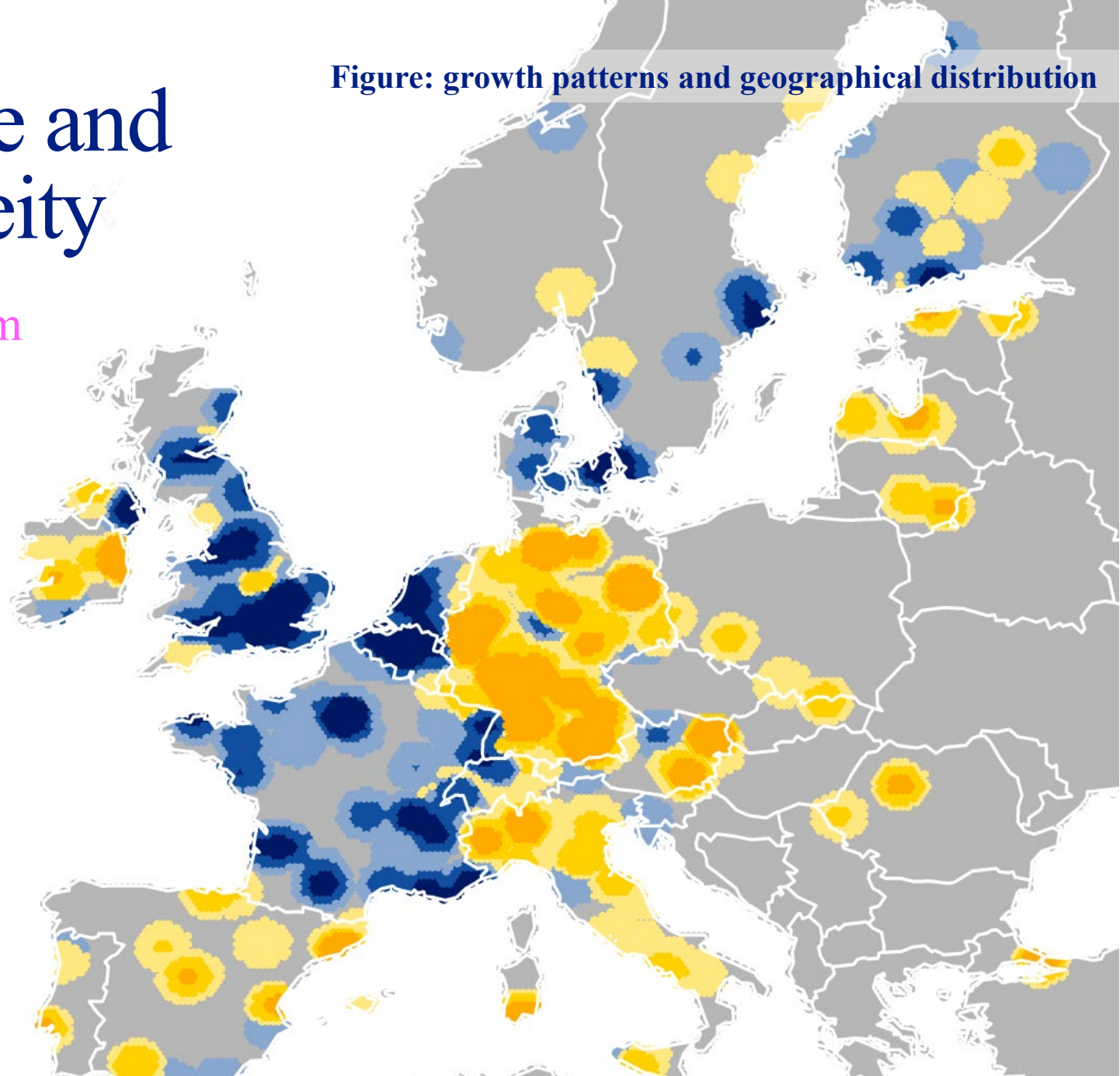


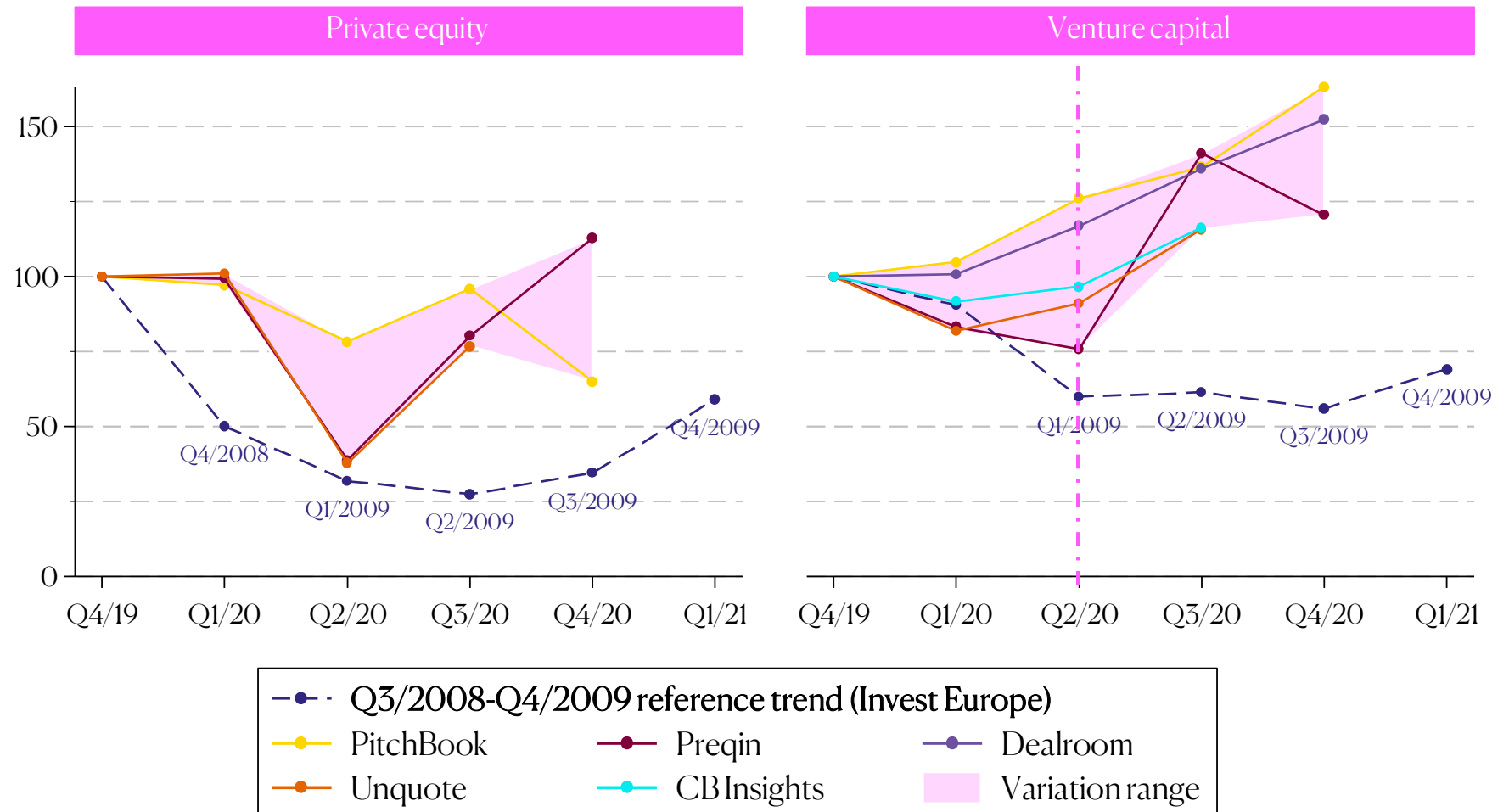
Figure: growth patterns and geographical distribution



#3: Opaqueness of VC industry and data quality

I. A cautionary tale

- In the early phase of COVID-19, we asked a simple question: how is the VC ecosystem reacting in the wake of COVID-19 confinement measures?
- Possible that existing data sources show significantly higher under-reporting for peripheral VC firms and start-ups compared to those in LMAs.



Overall

- A timely and policy-relevant analysis of the agglomeration patterns of VC activity
- Based on a rich and recently updated dataset of investments in EU, UK and Israel
- Compelling findings and policy implications
- **The role of governmental VC:** not just a question of the “if”, but also the “how” (Alperovych et al., 2018)

*Thank you
for your attention!*



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