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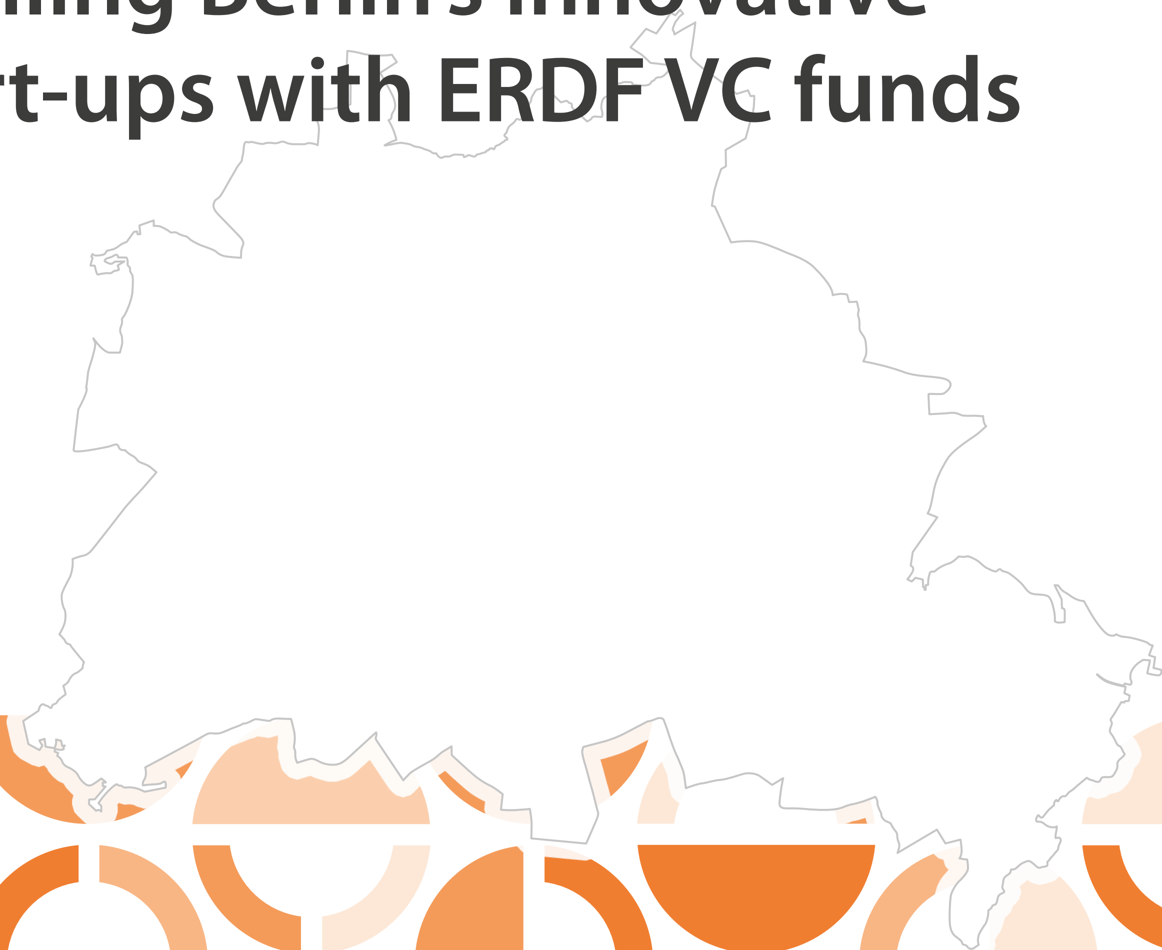
Case Study
November 2023

Fuelling Berlin's innovative start-ups with ERDF VC funds



European Commission

European Investment Bank

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Abbreviations

Abbreviation	Full name
CPR	Common Provisions Regulation
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESIF or ESI Funds	European Structural and Investment Funds
ESG	Environmental, social and governance
EU	European Union
GBER	General Block Exemption Regulation
IBB	Investitionsbank Berlin
IBB Bet.	IBB Beteiligungsgesellschaft (IBB Ventures)
ICT	Information and Communications Technology
IPO	Initial public offering
KPI	Key Performance Indicator
MA	Managing authority
MS	Member State
OP	Operational Programme
R&D	Research and Development
SDGs	Sustainable development goals
SME(s)	Small and medium sized enterprise(s)
TO	Thematic Objective
VC	Venture Capital

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1.1 Executive summary

Berlin, a prominent start-up hub and urban innovation leader in Europe, has been at the forefront of implementing equity financial instruments under the European Regional Development Fund (ERDF). The Federal State of Berlin embarked on this journey as an early adopter, deploying the first equity instruments using ERDF already in 2004-2007. These instruments aimed to foster the growth of the Venture Capital (VC) ecosystem within the city which was relatively nascent at the time.

This case study features Berlin's equity instrument implemented under the ERDF OP Berlin for 2014-2020 with two VC funds (financial instrument products):

- VC Fund Technology with a financial size of EUR 77 million[1], and
- VC Fund Creative Industry with a financial size of EUR 49 million[2].

The management of these funds has been entrusted to IBB Beteiligungsgesellschaft (IBB Bet., IBB Ventures), a subsidiary of Investitionsbank Berlin (IBB), the promotional bank of the Federal State of Berlin. Over the years, IBB Ventures has built market knowledge in this sector, establishing itself as the market leader in the field of early-stage financing in Berlin. It contributed greatly to the growth of the VC ecosystem in Berlin.

The target final recipients of Berlin's ERDF co-financed VC funds are innovative, scalable, growth-oriented companies in their early stages of development that can bring significant results in terms of job creation and turnover, in the clusters defined by the regional innovation strategy.

IBB Ventures follows a rigorous methodology for the selection of the companies, including several rounds of screening and due diligence to ensure that the most promising ventures are selected. Among others, climate and environmental considerations are incorporated in the selection process, ensuring that business models with significant negative environmental effects are excluded from funding. Numerous final recipients have been able to grow thanks to IBB Ventures' investments and follow-on investments. This is part of the long-term approach to supporting Berlin's VC ecosystem, going beyond the limitations of a single programming period.

The ERDF co-financed VC funds in Berlin have achieved impressive outcomes. They have made substantial investments, attracted significant co-investment, demonstrated a high leverage ratio and supported companies in various sectors. As a result, Berlin has solidified its status as a thriving innovation hub in Europe.

1 out of which EUR 13 million allocated from REACT-EU.
2 out of which EUR 9 million allocated from REACT-EU.

Funding sources
ERDF (OP Berlin ERDF 2014-2020)

Type of financial products
Equity (Venture Capital)

Financial size
EUR 126 million (out of which EUR 74 million from ERDF and EUR 52 million from national co-financing). Out of the ERDF funding, EUR 22 million was contributed via REACT-EU.

Thematic focus
Software and IT, healthcare, industrial technologies, consumer & digital (i.e. media, commerce, entertainment)

Timing
From 2015 to 2023

Partners involved
Managing authority
The Berlin Senate Department for Economics, Energy and Public Enterprises, European Structural Fund Support Unit
Intermediate bodies
The Berlin Senate Department for Economics, Energy and Public Enterprises, Industry and Innovation Unit (VC Fund Technology)
The Berlin Senate Department for Economics, Energy and Public Enterprises, Business Services, Services, Crafts, Trade, Tourism, Creative and Media Industries Unit (VC Fund Creative Industries)
Body implementing the financial instrument (fund manager)
IBB Ventures

1.2 Key takeaways

Berlin has a rich history of hosting numerous research institutes and fostering a community of highly innovative individuals. This vibrant ecosystem has positioned Berlin as a prominent player in the German VC ecosystem, accounting for approximately 50% of the Venture Capital financing activities in the country. This dynamic environment creates a flywheel effect, whereby the success of start-ups attracts more ambitious founders and investors, positioning Berlin as the national hub for start-ups.

Early-stage innovative companies heavily rely on external financing to develop their innovations and bring them to market. Traditional bank financing is often not feasible for these companies due to the lack of collateral and the high risk involved. VC financing emerges as the primary option, providing the necessary funding and expertise for such companies.

EU resources deployed through equity instruments prove to be an effective tool to help (further) develop the equity ecosystem in Member States and regions. By providing finance to start-up companies and attracting more investment, these resources 'plant the seed' with public money and enable the growth of supported companies, enhancing their credibility *vis-à-vis* other investors.

Entrusting IBB Ventures as a single legal entity with separate funds has proven to be advantageous, as it allowed to manage portfolios over successive programming periods. This approach reduces the administrative burden and costs associated with maintaining separate legal entities. At the same time, it allows to focus on the 'user journey' of the supported companies.

The *pari passu* approach of IBB Ventures' investments has proven to be highly effective for the VC funds, thanks to the presence of an ample network of private investors in Berlin. This approach facilitated additional capital infusion and ensured compliance with State aid rules at the level of co-investors. Whilst the Investment Strategy of IBB Ventures targets only companies based in Berlin, the VC funds are effective at 'crowding in' national and international private investors to co-invest in early-stage innovative companies in the city.

Blinks Labs GmbH

Sector(s): Book and press market
Fund: VC Fund Creative Industries I & II
Amount contracted by IBB Ventures (incl. ERDF): EUR 2.8 million
Total funding received including private partners: EUR 30 million

Blinkist, developed by Blinks Labs GmbH, is a globally renowned subscription service that provides written and audio summaries of popular non-fiction books. Through an app with a wide range of categories, users get 15-minutes insights into these publications. The company was founded in 2012 and is based in Berlin.

In total, Blinks Labs GmbH raised overall EUR 2.8m from IBB Ventures in four investment rounds, with 50% of the funds coming from ERDF resources. In the first financing round, the early investment by the 'VC Fund Creative Industries I' co-financed with 2007-2013 ERDF resources, helped the company to attract other investors which was pivotal for the company's growth and success. The additional co-investment amounts raised by Blinkist grew significantly in the three follow-up investment rounds, resulting in a total funding of EUR 30m.

Thanks to the investments, the company could grow fast and scale its business. Blinkist boasts as at May 2023 a staggering worldwide subscriber base of over 26 million users. The financial support received through the ERDF VC funds in Berlin has been instrumental in driving the company's growth and establishing its position as a global player in the digital content subscription market.

As a result of this rapid growth and solid market position, Australian edtech start-up Go1 has acquired Blinkist in 2023, aiming to serve its market of corporate online learning. This acquisition paves the way for Blinkist to become a valuable addition to companies' learning strategies while continuing to grow its consumer brand. By leveraging Blinkist's app format, Go1 plans to introduce advanced technologies such as AI to enhance the text-summarisation process and offer a diverse range of course delivery options to its users.


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02 Design of the financial instrument

2.1 Context

Germany is the fourth largest economy worldwide and the largest within Europe. Its economic strength is driven by the service sector contributing to 70% of the country's GDP. The economy of Berlin also reflects a dominance of that sector, with 84% of all companies located in Berlin engaged in service-related activities.

Berlin, as one of the 16 federal states of Germany, possesses its unique characteristics resulting from the historic unification of the city's two parts: West Berlin, which lacked industrial development, and East Berlin, which was relatively underdeveloped. Following the reunification of Germany, Berlin faced challenges related to insufficient infrastructure, high unemployment rates and low productivity. However, through concerted efforts to implement structural changes, the city has witnessed positive development since the early 2000s. This includes the modernisation of its industrial base, increased productivity and a growing share of exports in dynamic global markets.

Berlin benefits from a strong scientific and research landscape, as well as a high proportion of qualified people, creating favourable conditions for innovation and development. The Venture Capital ecosystem in Germany has reached a significant level of development over the last decade. German start-ups received almost EUR 10 billion of Venture Capital in 2022. However, compared to start-ups in the US or the UK, European start-ups in general still face a funding gap due to the relatively underdeveloped venture capital market, which offers a comparatively smaller pool of available (international) risk capital. This limitation constrains the development and competitiveness of European startups.

Berlin is the hub of start-up activity in Germany, accounting for approximately 4% of the total population in Germany but attracting about 50% of the country's Venture Capital funding. In terms of the relevant indicators (e.g. the proportion of SMEs with scientific cooperation, the start-up intensity in high-tech industries or the level of Venture Capital investment), Berlin is above the average federal level. However, the market is very diverse and fragmented, with many local, national and international investors (Venture Capital funds and business angels) looking for the best opportunities. Start-ups often have difficulties accessing capital because the market launch of technical innovations or new business models is associated with higher risks and low or lack of profitability in the early phase. For founders who are not yet well-connected to investors, equity financial instruments can be a great advantage and often the only available option.

The financial instrument presented in this study is implemented under the ERDF Operational Programme (OP) Berlin 2014-2020, which serves as a dedicated strategic framework for ERDF investments in the region (every federal state in Germany has its individual ERDF programme, tailored to address the specific needs and priorities of that particular region). The OP has a total budget of ca. EUR 635m to support research and development (R&D), structurally relevant start-ups, CO2 reduction measures and integrated urban development. Within the investment priority 1b[3] the OP defines the specific objective as intensifying and expanding the innovation activities in Berlin. Besides R&D activities, areas of knowledge-intensive services and creative industries also play an important role in that respect.

In particular, support for technology-oriented start-ups and start-ups in the creative industries via Venture Capital funding aims to contribute to the specific objective by expanding the base of new, highly innovative companies. The target final recipients of the financial instrument are growth-oriented companies in the following five clusters defined by 'innoBB 2023', the common innovation strategy of the Federal States of Berlin and Brandenburg[4]:

- Healthcare;
- Energy technology;
- Mobility and logistics;
- ICT, media and creative industry;
- Optics and photonics.

The expected outcome with respect to the specific objective is twofold. Firstly, it aims to enhance R&D activities, fostering innovation and advancement. Secondly, it involves increasing the proportion of R&D staff within the overall economy as well as expanding the workforce in scientific, technical and creative professions within the sectors that are particularly relevant for Berlin, such as the manufacturing industry and knowledge-intensive services.

According to recent market tests, the demand for Venture Capital still exceeds the available supply, which justifies the continuation of the VC funds during the 2021-2027 programming period as well. The transition to the 2021-2027 programming period will be discussed later under section 5 of our report.

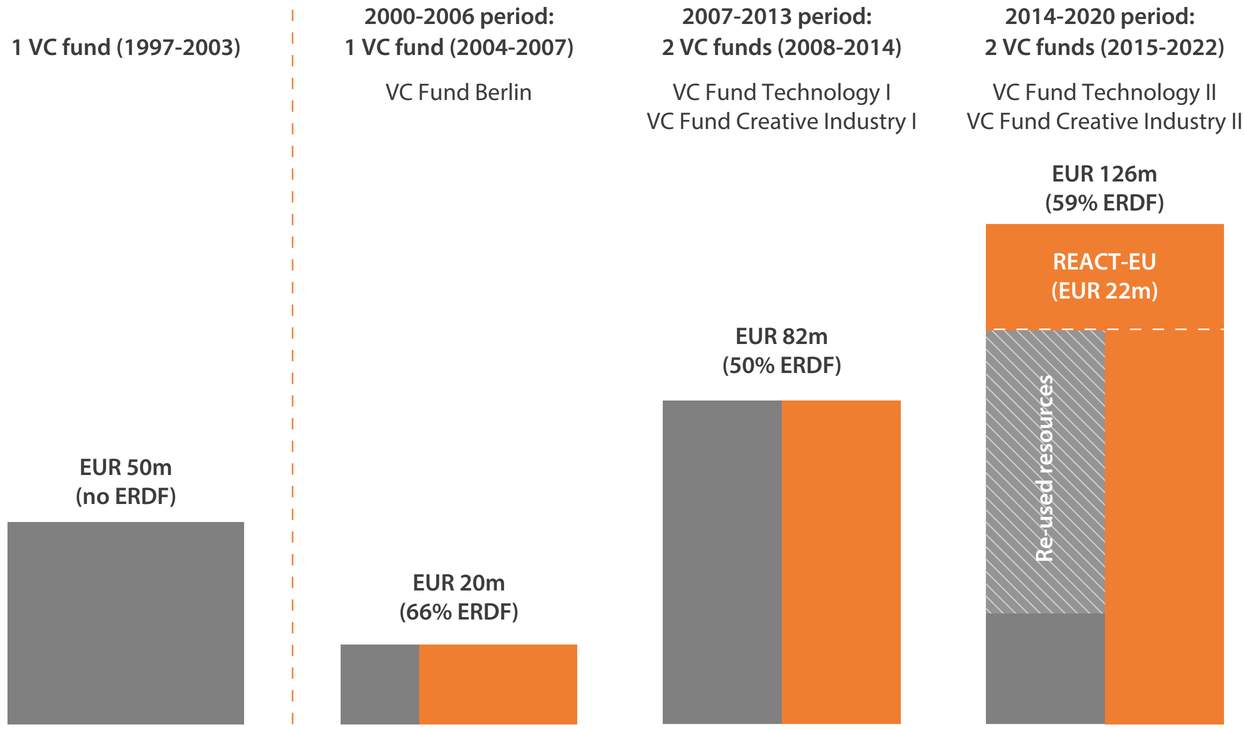
2.2 Previous experience with financial instruments in Berlin

IBB Ventures has provided VC support for the establishment of start-ups in Berlin since 1997. The initiative began with IBB supporting young technology companies with risk capital, yet without EU funds. It was followed by the creation of the 'VC Fund Berlin' in 2004, a collaborative effort between the Federal State of Berlin and IBB, with co-financing from the European Union's European Regional Development Fund (ERDF). Initially, the support focused on technology-oriented companies in the fields of Life Science, Information and Communication Technologies (ICT), and Industrial Technologies via a single fund, 'VC Fund Berlin'. However, since the end of 2007, the fund offer has expanded to include companies from the creative industries as well, taking into account the high importance of the sector in the region considering the substantial volume of funding requests it has generated in the past. To cater to all sectors, two independent funds called the 'VC Fund Technology' and 'VC Fund Creative Industries' were established.

3 Investment priority 1b: Promoting enterprises' investments in R&D, building links and synergies between enterprises, research and development centres and the higher education sector, in particular promoting investment in product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation, as well as support for technological and applied research, pilot lines, early product validation measures, advanced manufacturing capacities and initial production, in particular in key technologies and the dissemination of all-purpose technologies; in addition, support for investments needed to strengthen crisis response capacities in public health.

4 Common innovation strategy of the Federal States of Berlin and Brandenburg: innoBB 2025.

Figure 1: Generations of VC Funds over the programming periods



Prior to the launch of the VC Funds in 2015 with 2014-2020 ERDF resources, the previous generations had undergone a comprehensive evaluation. In summary, the evaluation yielded a positive outcome. The assessment highlighted the positive aspects of the collaboration with private financing partners, recognising also the leverage effect achieved through the involvement of private investors. The evaluation revealed the positive effects of the funds on the companies that received financing, demonstrating their impact. Notably, the funds effectively supported high-growth companies with innovative business models, where such growth would not have been possible without such participation.

During the 2000-2006 programming period, in addition to the first generation of the VC Funds, two further revolving funds were established: the SME Fund ('KMU-Fonds') and Berlin Capital ('Berlin Kapital'). Managed by IBB, these funds offered loan and mezzanine products to support businesses. Despite significant efforts in distribution and flexible funding terms, not all of the fund could be utilised by the end of the programming period. This was primarily due to the late launch of the instruments and a high rejection rate resulting from low creditworthiness and limited economic prospects of the businesses. Nevertheless, the successors of these funds continue to exist and are now recognised as successful products in the Berlin market.

2.3 Ex-ante assessment

The objective of the ex-ante assessment was to evaluate the existence of market gaps or deficiencies in financing for innovative enterprises in Berlin, in view of a potential implementation of financial instruments. The assessment aimed to justify the appropriateness, adequacy and necessity of the proposed financial instruments to achieve the priority objectives defined in the OP.

The ex-ante assessment covered all six different instruments listed in the original Operational Programme. Besides the two VC Funds, it consisted of the Programme for the Funding of Research, Innovation and Technology (Pro FIT Loan Programme), an SME loan fund including microfinance and growth financing, a guarantee fund for SMEs and an SME fund for environmental loans.

Considering the target final recipients of the two VC funds, the lack of bank financing together with the absence of capital create significant financing challenges, particularly during the initial stages of their operations. With respect to the financing gap, the results of the market analysis indicated an anticipated demand of EUR 91 million for public equity capital in the (high)tech sector and EUR 105 million for the creative industries during the 2014-2020 programming period.

The ex-ante assessment analysed the added value of the instruments in terms of 1) their complementarity to other instruments, 2) their leverage effect, 3) their effects on the public purse as well as 4) their contribution to the underlying policy objectives:

- First, in terms of complementarity, although the ex-ante assessment identified other investment instruments with the market, like HTGF (High-Tech Gründerfonds, a seed investor for high-tech start-ups) and the "Enterprise-Resource-Planning Start-up Fund", with funds successfully delineate themselves in terms of objectives and target groups by focusing on specific areas and/or stages of the development cycle that are not sufficiently covered by existing support mechanisms. Grant programmes are more tightly focused on R&D and, partially, cutting edge research and are therefore complimentary to the VC Funds;
- Secondly, the structure of the instrument with a minimum private participation at the level of individual enterprises and close cooperation with other financing partners would allow a respectable leverage for both funds. For 'VC Fund Technology', the expected leverage effect is estimated to be between 1:15 and 1:20, whereas for 'VC Fund Creative Industry' the expected leverage rate is 1:9-1:11. In general, the greatest leverage effect is attained when the financed companies are effectively developed during the seed or start-up phase, successfully transitioned to the expansion phase, and able to attract foreign institutional investors;
- Thirdly, an additional added value is created by the revolving nature of the financial instrument, whereby the reflows can be reinvested into the sectors, hence providing increased financial leeway for the public budget;
- Finally, through the investment in young, innovative (tech-oriented) enterprises, the ex-ante assessment envisaged that both funds would be able to effectively contribute to the specific objectives of the OP.

Based on the favourable evaluation of the implemented instruments in the previous programming periods, only minor adjustments were recommended to the new generation of VC Funds, while largely maintaining the existing design and set-up.

Due to the similarities of the two Funds, the ex-ante assessed the potential combination of the two in a unified fund. However, the marketing advantages for an independent VC Fund (e.g. better visibility and promotional activities) and the lack of significant savings from a merger led to the recommendation that the two Funds would be founded as independent funds.

For the management of the funds, taking into account the past experiences and the capacity of sector specialists, the ex-ante assessment recommended once again the engagement of IBB Ventures, a subsidiary of IBB (Investitionsbank Berlin).

2.4 The VC funds launched

Equity investments vary based on a company's development stage and investment model, encompassing phases such as Seed, Start-up, Early Growth, Expansion, Mature age, and Crisis or Decline, with VC funds primarily targeting the startup and early growth phases of high-growth companies with significant potential for returns.

Unlike traditional financing methods such as loans, collateral is not required from the companies. In the event of unsuccessful development, the VC Fund faces the risk of a complete loss. Conversely, if the products succeed, these innovative companies can experience substantial annual sales growth. Simultaneously, the shares acquired by the VC Fund could also witness a significant increase in value.

VC funds operate by pooling resources from multiple investors, which are then managed by a dedicated team with the objective of maximising the investors' returns. These investments begin by identifying promising companies that align with their investment criteria and possess significant growth potential.

ERDF equity financial instruments

Further information on the mechanisms of VC funds, key features of equity financial instruments, together with industry best practices can be found in the fi-compass factsheet 'ERDF equity financial instruments'.

As the company progresses, it raises additional funding through successive funding rounds. Prior to each funding round, a valuation of the company is carried out, based on the company's management, track record, market size, risk, etc.

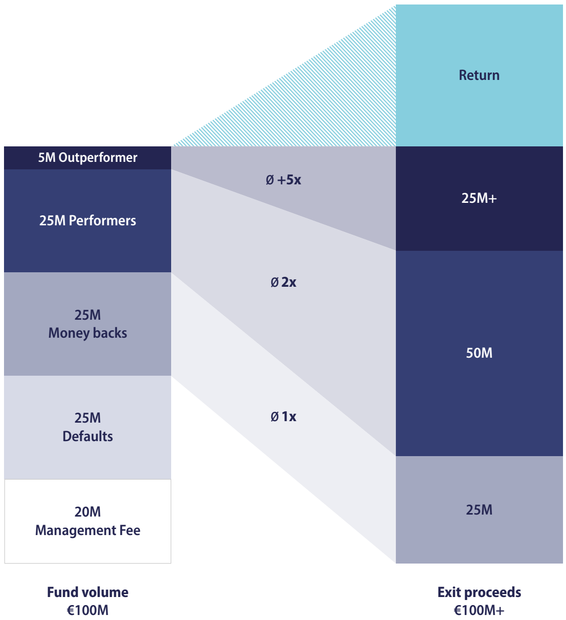
Eventually, equity investment managers aim to realise the value of their investments through an exit strategy, where they sell or dispose of their portfolio holdings. This could be the sale of shares in trade sales, where another company acquires them, or through an initial public offering (IPO). The potential for substantial value appreciation is essential for venture capitalists to justify financing despite the considerable risks involved (see box below).

How Venture Capital funds work

The successful exit of investments is crucial for equity investors to achieve their financial objectives.

Exit strategies for VC Funds include trade sales, public offerings, selling to other venture capitalists, repayment of preference shares or loans, or write-offs.

A significant part of the fund volume is needed to cover the management fees for fund administration. Assuming a portion of the portfolio ending up in defaults, the remaining investments can be categorised into those that simply pay back the invested capital, performers that yield modest, but higher value upon exit, and outperformers that generate attractive returns. Ultimately, a successful exit for a VC fund manager involves liquidating or disposing of their investment portfolios in a manner that ensures a financial return.



Source: IBB Ventures

The main rationale for launching subsequent generations of the financial instrument was to keep supporting the start-up economy in Berlin, which is vital for the city's innovation and economic growth. By providing access to capital and expertise, the financial instrument aims to bring on board additional private equity by reducing risk and sending a signal of confidence through participation and ultimately bridge the financing gap identified by the ex-ante assessment.

The policy objectives and strategic priorities of the OP are reflected in the Investment Strategy of the VC Funds, as it finances exclusively innovative, scalable, growth-oriented companies, that can bring significant results in terms of job creation and turnover growth overall, despite the relatively small number of cases. Also, the Funds support only companies in their early stages of development (seed and start-up). Companies in the expansion phase can only receive funding in the form of follow-up financing when they were financed previously by one of the predecessor funds. Ultimately, the financing effect of these activities will enhance competitiveness and strengthen the equity base of the supported companies, which is aligned with the overarching strategic objective of the OP.

2.4.1 VC Fund Technology II

The financial size of the second generation of the 'VC Fund Technology' ('VC Fonds Technologie') amounts to EUR 64 million, of which EUR 32 million from ERDF, while the other 50% was contributed by national public funds (i.e. IBB). Out of the latter funding, EUR 24 million was coming from reflows. The remaining national co-financing was provided by IBB as equity.

Table 1: 'VC Fund Technology' – Funding sources and amounts

Funding source	Amount
ERDF	EUR 32 million
National public co-financing	EUR 32 million
TOTAL	**EUR 64 million**

2.4.2 VC Fund Creative Industries II

The financial size of the second generation of the 'VC Fund Creative Industry' ('VC Fonds Kreativwirtschaft') amounts to EUR 40 million, of which EUR 20 million from ERDF, while the other 50% was contributed by national public funds (i.e. IBB). Out of the latter funding, EUR 12.25 million was coming from reflows. The remaining national co-financing was provided by IBB as equity.

Table 2: 'VC Fund Creative Industries' – Funding sources and amounts

Funding source	Amount
ERDF	EUR 20 million
National public co-financing	EUR 20 million
TOTAL	**EUR 40 million**

2.4.3 Additional funding from REACT-EU

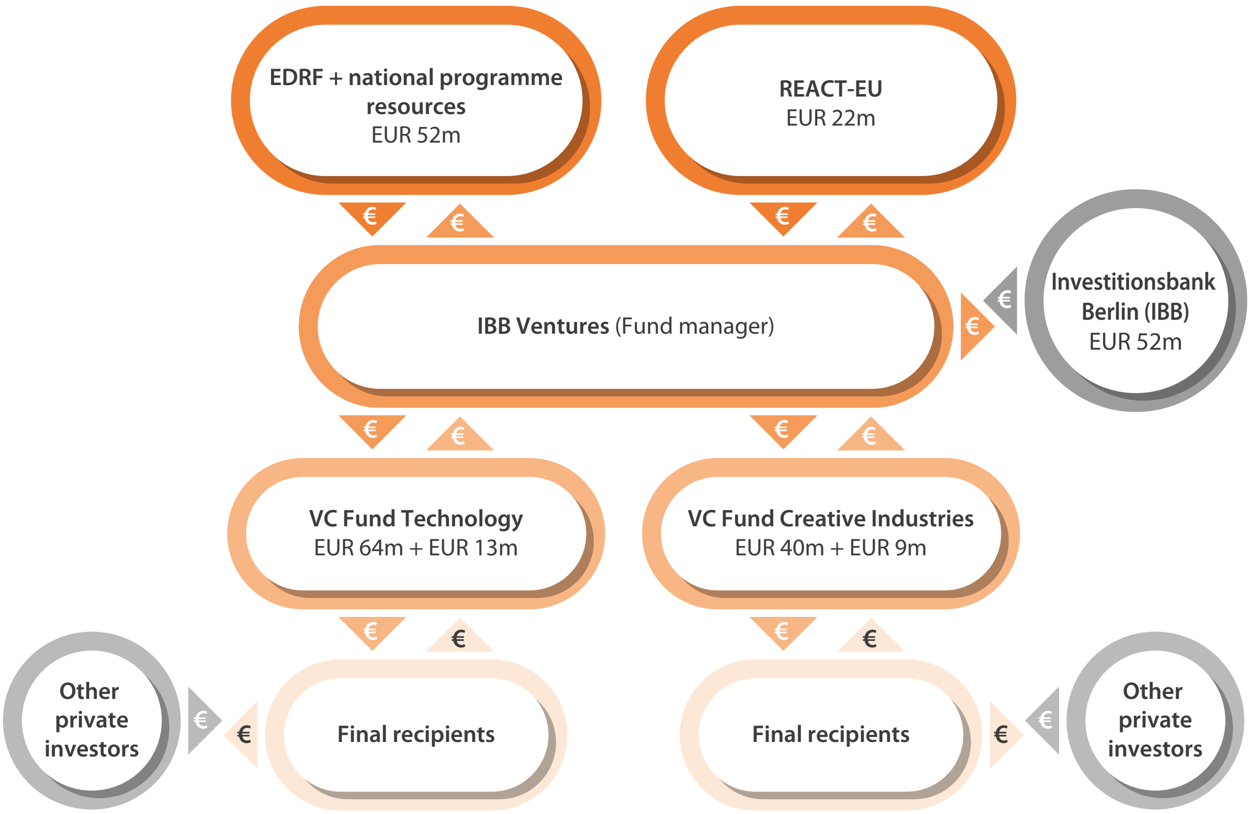
The Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) was established as a response package of the EU to address the consequences of the COVID-19 pandemic and to help mitigate the effects of the crisis on the EU's economy. It was provided as a top-up to 2014-2020 ERDF allocations to be delivered under shared management, but without the requirement of national co-financing. These resources could be used for expenditures incurred from 1 February 2020 until end 2023.

The initiative was launched in 2020 and became operational in 2021, which came at the perfect time from the perspective of the VC Funds as well, since the initial contributions to the Funds had already been successfully invested, but the funding from the new programming period had not been available yet. Therefore, an additional EUR 13 million and EUR 9 million were contributed to the 'VC Fund Technology II' and 'VC Fund Creative Industry II', respectively, to bridge the temporary resource gaps brought about by the transition between programming periods.

Table 3: Total VC Funds – Funding sources and amounts

Funding source	Amount
ERDF	EUR 74 million
out of which from OP Berlin 2014-2020	*EUR 52 million*
out of which from REACT-EU	*EUR 22 million*
National public co-financing	EUR 52 million
TOTAL	**EUR 126 million**

Figure 2: Structure of the financial instrument



2.5 Timetable for set-up and implementation

The timeline for the set-up of the Funds is described in the table below.

Table 4: Set-up and implementation timeline of the 2014-2020 ERDF VC funds in Berlin

Time period	Actions taken
December 2014	Ex-ante assessment completed
December 2014	OP approved by the European Commission, envisaging the use of financial instruments within the OP
March 2015	Funding agreement signed between IBB Ventures and the managing authority
March 2015	First contract signed with final recipient
July 2021	Additional allocation from REACT-EU to the Funds
December 2023	End of eligibility period for the financial instrument
December 2025	End of the contract period of the funding agreement (with the possibility of an extension of 3 years)

03

Set-up of the financial instrument

3.1 Governance structure

The financial instrument was set up by the Federal State of Berlin, in its role as managing authority carried out by the European Structural Fund Support Unit of the Senate Department for Economics, Technology and Research (later renamed as Senate Department for Economics, Energy and Public Enterprises). The Berlin Senate within the central administration of the Berlin Federal State government comprises of one governing mayor and 10 senators, who head different departments (*de facto* like ministries) responsible for specific areas of governance.

The implementation of the financial instrument is carried out via two intermediate bodies:

- For the VC Fund Technology: the Industry and Innovation Unit, and
- For the VC Fund Creative Industries: the Business Services, Services, Crafts, Trade, Tourism, Creative and Media Industries Unit,

within the Senate Department for Economics, Energy and Public Enterprises.

While the main responsibility of the managing authority is to oversee the implementation, management and monitoring of ERDF programmes and funds in the region, the intermediate bodies are responsible for the distribution and allocation of ERDF funds to eligible projects and beneficiaries.

Originally, as the predecessor of the current VC Funds, the Venture Capital Fund Berlin was jointly established in 2004 by the Federal State of Berlin and IBB as a limited liability company. The fund received financial support from the ERDF along with IBB's own funds. To sustain the activities of the Fund during the programming period 2007-2013, the Federal State of Berlin and IBB collaborated to establish the VC Funds Technology and subsequently the VC Funds Creative Industries. In the subsequent programming period of 2014-2020, successor funds were established to continue the support provided by the existing funds.

The Federal State of Berlin entrusted the management of the funds to IBB Ventures according to Art. 38(4)(b)(iii) of the 2014-20 Common Provisions Regulation (CPR)[5], which allows the implementation tasks to be awarded directly to a publicly owned financial institution that strives to achieve objectives of public interest.

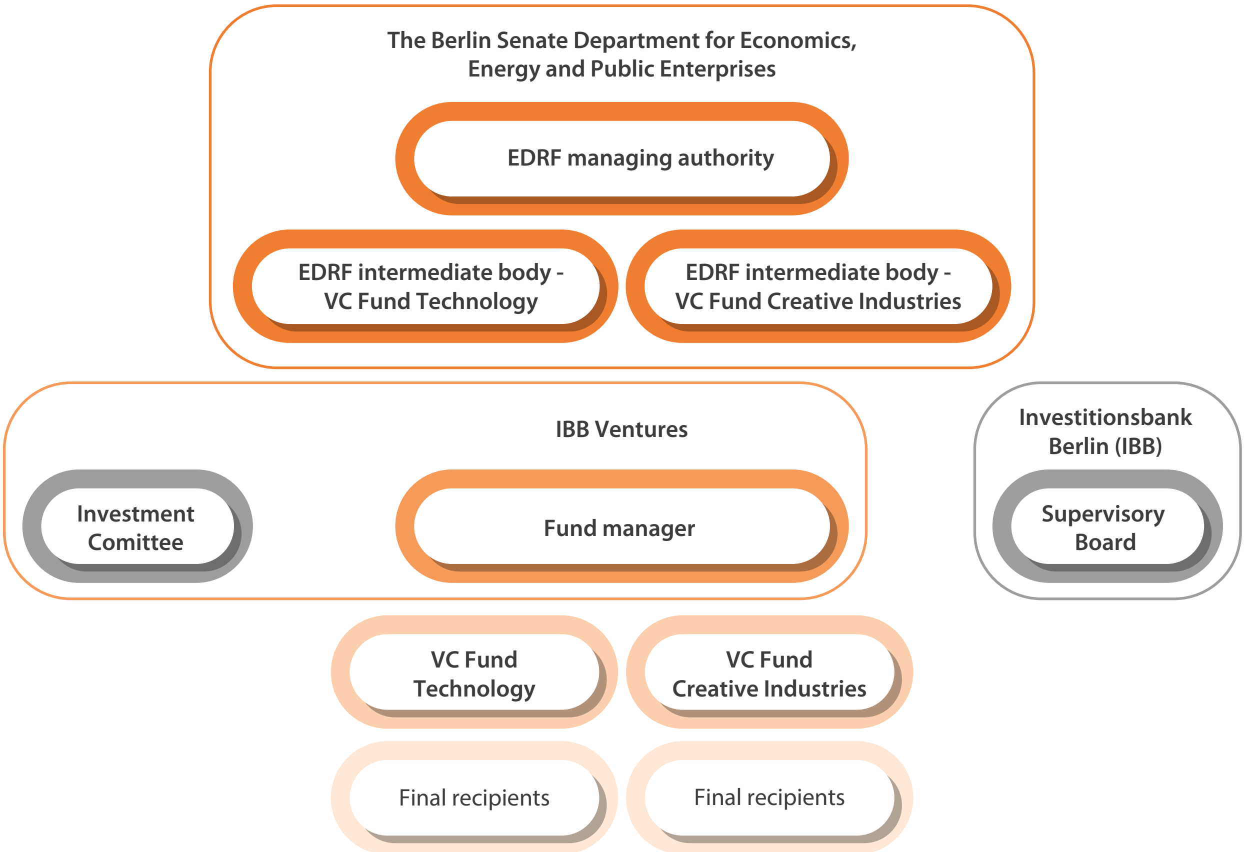
The set-up of the VC funds closely resembles many aspects of private Venture Capital funds, encompassing key elements such as the investment vehicle, management company and fee structure. Just like their private counterparts, the VC Funds are designed as dedicated investment vehicles that pool capital from various sources to be strategically deployed into promising ventures. Similarly, a management company, in this case IBB Ventures, is appointed to oversee the day-to-day operations of the funds, including deal acquisition, due diligence, portfolio management and eventual exits. This professional management approach ensures effective utilisation of the funds and maximises the potential for successful investments. Furthermore, the fee structure adopted by the VC Funds aligns with industry practices, often involving management fees and carried interest, allowing for sustainable operations and incentivising the management team to deliver positive returns for the investors.

5 Regulation (EU) 1303/2013.

To ensure proper utilisation of the funds and to establish clear guidelines, a Funding Agreement was signed between the Federal State of Berlin and IBB. This agreement regulates the use of each VC Fund, outlining the specific criteria for investment and the terms for disbursement of funds.

The governance structure adheres to the arms-length principle, ensuring that investment decisions are devoid of political influence. The final decisions are made by the Investment Committee, which comprises four members from IBB Ventures, including two investment managers assigned to the case based on their industry competences. Additionally, a Supervisory Board – including delegated members from IBB – exists to approve investments that exceed specified thresholds (i.e. over EUR 3 million). Such streamlined approach enables well-informed and efficient investment decisions, which is essential considering the significant volume of investments (50-60 new and follow-on investments) and exits (10-15 exits) per year.

Figure 3: Governance structure of the financial instrument




Investitionsbank
Berlin

3.2 IBB Ventures

IBB, Berlin's regional promotional bank, was established in 1993[6] as an independent institute under public law and under control of the Federal Financial Supervisory Authority. IBB, owned by the Federal State of Berlin, focuses on the support of start-ups and SMEs with grants, loans, guarantees and Venture Capital. IBB raises its funds from the capital market ensuring liquidity of its operations via its treasury department. Thanks to its AAA rating, stemming from the fact that its liabilities are guaranteed by the Federal State, IBB benefits from preferential refinancing terms on the capital market.

IBB manages most of the business promotion programmes in Berlin, which are well aligned with the VC Funds. In the 2014-2020 programming period, Berlin received EUR 635 million ERDF contributions in total, half of which is managed by IBB. These programmes include grants (e.g. Internationalisation scheme[7]) and loans (e.g. SME Fund), the combination thereof (e.g. Pro FIT) as well as risk capital, such as the VC Funds. Overall, two thirds of funds managed by IBB are provided through financial instruments.

IBB Venture was established 1997 as a 100%-owned subsidiary of IBB. Since 2021, IBB Venture is part of the IBB Group, which was created through the restructuring of IBB and the establishment of IBB Unternehmensverwaltung (IBB UV).

As the Venture Capital arm of IBB, IBB Ventures has a longstanding experience of investing via equity in companies through its regional public resources. It plays a vital role in driving the growth of promising companies and facilitating economic development.

As a strategic partner for start-ups, IBB Ventures offers not only capital but also valuable resources, networks and mentorship to support entrepreneurs in their journey towards success. The team at IBB Ventures comprises experienced professionals with a deep understanding of the start-up ecosystem, ensuring that the companies they invest in receive comprehensive guidance and assistance.

One of the key strengths of IBB Ventures is its strong connection to the local ecosystem in Berlin. Through partnerships with industry experts, research institutions and other stakeholders, IBB Ventures is able to leverage the vibrant entrepreneurial community and facilitate collaboration among start-ups, investors and mentors.

3.3 State aid[8]

When assessing the presence of State aid in case of a public fund, three levels should be taken into account: the level of co-investors, the level of the investment fund and its managers and the level of SMEs in which the fund capital is ultimately invested:

- At the level of co-investors, if the investment is carried out *pari passu* (i.e. the public and private investors share the same risks and rewards) between the public and private investors, then the transaction does not constitute state aid;
- At the level of the investment fund and fund manager, State aid compliance can be achieved by ensuring that the remuneration (i.e. management costs and fees) are according to market standards and performance-based;

6 The legal predecessor of IBB was founded in 1924.
7 Support to Berlin-based SMEs in their efforts to establish themselves on foreign markets (e.g. grants to finance research activities on the foreign market's conditions).
8 It is the Member State's/Region's responsibility to ensure compliance with State aid rules when they give aid through financial instruments (co-) financed by EU shared management funds. This section presents the state aid regime adopted in the Federal State of Berlin and is not an assessment or official position of the European Commission.

- At the level of the SMEs, since risk capital under the equity financial instrument is offered to the companies at market conditions, there are no direct State aid implications. In case of shareholder loans, market conformity is assumed for unsecured loans if the fixed remuneration is at least 400 basis points above the reference rate set by the Commission[9] (in case of a satisfactory rating with additional risks priced by an appropriate risk premium).

IBB Ventures prefers to operate under a framework where they can invest *pari passu* with independent private investors, applying market-level management fees. This approach ensures that there is no State aid involved at any level.

However, there are instances where independent private investors may not be readily available. In such cases, alternative structures are employed to comply with State aid regulations. An example of this is the utilisation of the small aid scheme during the COVID-19 pandemic. As many private investors were already invested in the companies affected by the crisis, they were considered non-independent. Consequently, the small aid scheme under the Temporary State Aid Framework was implemented to provide the necessary support within the boundaries of State aid rules.

Furthermore, for young companies seeking financial assistance, there are additional options available under State aid regulations. Art. 22 of the General Block Exemption Regulation[10] (GBER) provides a stable framework for State aid compatibility. Additionally, the *de minimis* rule can be applied for loans below EUR 200 000. Both options allow for State aid within specific limits while ensuring compliance with regulatory requirements.

3.4 Monitoring and reporting

The Federal State of Berlin bears the responsibility for the technical oversight of the financial instrument's implementation. In turn, IBB commits to ensuring that the management group provides the requisite documentation for effective supervision.

A clear audit trail is crucial for monitoring and control purposes. Therefore, a comprehensive set of documents is necessary for each investment, documenting the investment decision, contracts, payments and ongoing reporting. This ensures transparency and accountability throughout the investment lifecycle.

In the context of revolving funds, the Funds are intended for continuous utilisation in financing the target groups. However, to facilitate distinct management and financial tracking, separate accounting groups are established for each generation of the funds, enabling individualised settlement and effective monitoring of their activities.

IBB Ventures is responsible for ensuring that the necessary data for mandatory programme monitoring and evaluation are collected and provided to the managing authority in the required format and within the specified deadlines.

In addition, IBB Ventures reports on a quarterly basis to the Federal State of Berlin on the state of play of the funds as well as with respect to the defined quantitative and qualitative indicators. Furthermore, at the request of the Federal State of Berlin, regular discussions are held between the Federal State of Berlin and IBB Ventures regarding the performance of the VC funds.

9 Communication from the Commission on the revision of the method for setting the reference and discount rates (2008/C 14/02).
10 Regulation (EU) No 651/2014.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04 Implementation of the financial instrument

4.1 Venture Capital investments

4.1.1 User journey of prospective start-ups

IBB Ventures invests in selected companies by acquiring shares, providing crucial financing for product development and market launch. There are approximately 600 requests received by IBB Ventures per year, from which 10-12 applicants receive funding in the end. This represents a 2% selection rate, which is considered a standard for Venture Capital funds.

IBB Ventures employs a two-sided approach for client acquisition. Firstly, prospective companies have the option to directly apply to IBB Ventures through an online application form, where they can provide details about their company and submit a pitch deck. Secondly, IBB Ventures actively scouts potential investment candidates through the comprehensive company register and leverages their network of private investors, who may offer recommendations for co-investments or follow-on investments.

IBB Ventures primarily invests in early-stage companies or, at the latest, during Series A funding rounds. This applies regardless of whether the company has previously received support from grant schemes. For companies at the pre-seed stage, other IBB products specifically tailored for kick-starting ventures would be more suitable.

The investment process at IBB Ventures follows a structured approach, beginning with investor selection and the preparation of investment decisions. This involves conducting a formalised evaluation of the applications received, ensuring they align with the participation requirements outlined in the concept guidelines for each Fund. The evaluation is conducted diligently to assess the viability and potential of the companies seeking investment. The main stages of the process are as follows:

Based on the companies entered in the system, the initial screening process focuses on selecting companies that meet the eligibility criteria, such as being based in Berlin, demonstrating growth potential and having a unique business plan in targeted sectors. The review is carried out mainly on the basis of the approach/summary and pitch deck provided by the companies. Additionally, companies must fulfil formal requirements, such as providing complete documentation and seeking investments within specified thresholds. Typically, this initial review (i.e. 'Contact stage') takes four to eight weeks and around 50% of the applications successfully go to the next round.

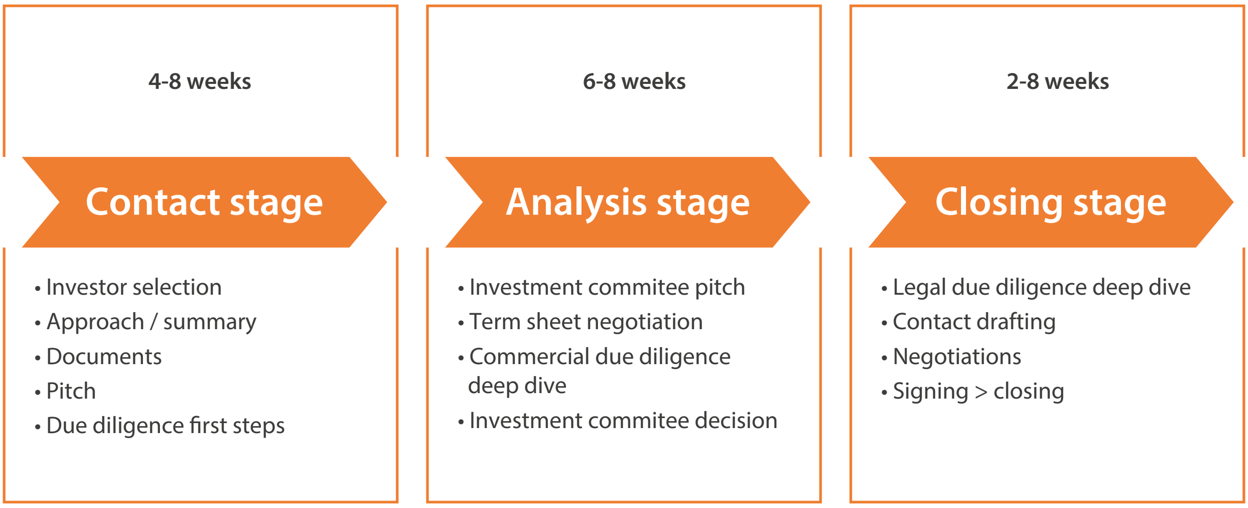
Following the initial screening, selected companies proceed to the 'Analysis stage', started with a joint initial meeting with one or two members of the investment team. Investment managers with expertise in relevant industries (e.g. healthcare, IT, renewable energy, etc.) are assigned to evaluate the start-ups. During these meetings, the start-ups present their vision, motivations, backgrounds and provide insights into the problems they aim to solve, along with their proposed solutions. Generally, approximately one-third of the candidates progress to the next round after this stage.

The initial interview is often followed by additional meetings to foster better understanding and address any outstanding matters. The role of the follow-up appointment is to further narrow down the pool of applicants to approximately 10%.

If the company continues to demonstrate promise, the founders are invited to present their case to the Investment Committee, which includes two additional members alongside the investment team. The final investment decision is made by the Investment Committee. The committee's role is crucial in ensuring that investment decisions are made based on sound judgment and in the best interest of all stakeholders. The process, from the initiation of the Analysis stage to the decision of the Investment Committee, typically takes around six to eight weeks.

Once the Investment Committee has endorsed the investment, the 'Closing stage' starts, including the legal procedures related to contracting. This takes two to eight weeks, depending on the complexity of the contract and the negotiations.

Figure 4: Investment decision process



Source: IBB Ventures

The supported companies are required to submit their annual financial statements and additional documentation as specified in the participation agreements. The management company, acting on behalf of IBB Ventures, thoroughly reviews these documents to assess the plausible use of funds and to track the company's progress in implementing its business plan. This assessment helps to monitor the effective utilisation of the funds and to gauge the company's overall performance and adherence to the agreed-upon milestones.

Later, IBB Ventures can also make follow-on investments in companies in which they have already invested. For that purpose, IBB Ventures is able to support start-ups from later fund generations. In follow-up financing rounds, IBB Ventures can increase their commitment with existing and/or new investors up to EUR 4 million, in individual cases up to EUR 6 million total investment, depending on capital requirements. Most private venture funds are not doing follow-on investments out of different fund generations. The reason is a possible conflict of interest as the investors in the different fund generations might vary. Hence, these private funds have to set aside a certain amount of the capital for later follow-on investment. This is not an issue for IBB Ventures as there are no outside investors.

At the level of the individual companies, the investment is terminated when IBB Ventures executes its exit strategy by liquidating or disposing of its investment portfolios. It is generally considered a highly attractive strategy to hold on to the shares until an IPO or even longer, to achieve a higher valuation. A second priority option – but by far the most common one - involves a trade sale of the company or parts of it to an industrial investor, such as a listed company. Alternatively, a secondary purchase could take place if IBB Ventures decides to sell the shares to another private equity firm. In cases where the company's growth trajectory does not indicate favourable future exits, a buyback of shares by old shareholders could serve as an option to terminate the investment. Lastly, in situations where the investee faces insolvency risks, emergency sales to the founder may be the only viable solution to mitigate losses.

Below is an example of a company that went through a full investment cycle from investment to exit.

Thermondo

Sector(s): Energy technology
Fund: VC Fund Technology I & II
Amount contracted by IBB Ventures (incl. ERDF): EUR 2.5 million
Total value of the investment: EUR 48 million

thermondo

Thermondo, established in 2013, has emerged as the leading provider of home heating installation in Germany. With an impressive track record of over 35 000 replaced heaters, the company has positioned itself as a pioneer in supporting the transition to carbon-neutral electric heating in residential buildings. Thermondo's focus lies in delivering client-focussed, innovative and environmentally friendly heating solutions, primarily in the form of heat pumps. These heat pumps utilise renewable energy from air, groundwater or ground, and convert it into heating energy for homes.

Thermondo handles all aspects of the transition, including planning, financing, funding, deregistration, disposal of old heating systems, as well as registration, installation and annual maintenance of the heat pumps. All these services are offered at a fixed monthly price, without any upfront acquisition costs.

Between 2015-2017, Thermondo secured EUR 2.5 million of investment through multiple financing rounds from the VC Fund Technology II. This funding came after an initial seed-stage financing round supported by the predecessor fund, VC Fund Technology I. The investment journey reached a successful conclusion in 2021 when IBB Ventures executed an exit through a secondary market transaction by Brookfield Infrastructure.

Since its establishment, Thermondo has made a significant impact by helping to save over 730 000 tons of CO2 emissions. In addition, it has contributed to the creation of nearly 350 additional jobs, a direct result of the investment made in the company by IBB Ventures.

4.1.2 Financial management

During implementation, both EDRF and national co-financing are provided as equity into the legal entity. In line with the legal basis (i.e. Art. 41 CPR), payments to the financial instrument are made in tranches via written payment requests and linked to disbursements to final recipients.

If IBB is providing additional equity on top of the ERDF contributions to the VC Funds, the applicable refinancing interest rate is checked by the Federal State of Berlin prior to the initial availability of funds and any subsequent disbursements. In this regard, IBB Ventures provides the Federal State of Berlin with the current ISDA rate[11], along with the relevant risk premium (funding spread) specific to IBB. If the audited refinancing interest rate reaches or exceeds 5%, it necessitates immediate communication and consultation between the parties before the next disbursement. However, in cases where the national co-financing is provided using ERDF reflows, this mechanism becomes irrelevant as no interest is charged.

The investment period for the investment of the funds ends on 31 December 2023. The ERDF resources transferred to IBB and not used until the end of the investment period will be repaid to the Federal State of Berlin.

The settlement of the Funds is initially set at 31 December 2025 (or with up to three years of extension in line with the potential extension of the underlying investments and if mutually agreed by the Federal State of Berlin and IBB). During the settlement process, the available funds will be allocated and repaid to the investors — IBB and the Federal State of Berlin — in a predefined order agreed upon in the Funding Agreement. As a profit share, IBB Ventures as the management company receives a remuneration based on the total adjusted net income.

4.2 Terms of financing

Under the ERDF legal framework applicable for the programming period 2014-2020, Venture Capital financing is subject to the following limitations:

- The co-financing rate provided by ERDF cannot exceed 50% of the total funding;
- All funds must be disbursed by 31 December 2023. For subsequent investments made after the deadline, a limited amount of unspent funds may be placed in an escrow account for future use;
- The amount of management costs and fees shall not exceed 2.5% per annum, and 20% at aggregate level with respect to the total programme contributions paid to the financial instrument. Additionally, the payment of performance-based management fees is subject to compliance with established parameters.

Regarding the eligibility of the final recipients, the target group is limited to early-stage capital, specifically seed capital, start-up capital, or in certain cases expansion capital. Within that limit, the VC Funds focus on financing the development and market launch of innovative, scalable products or services for rapid corporate growth.

Based on the cluster focus defined in 'innoBB 2023', the regional innovation strategy, the 'VC Fund Technology' targets technology-oriented companies. It supports projects involving industrial research, technological re-engineering, and further development of products, processes or services. This includes production development and market launch or market penetration. The 'VC Fund Creative Industry' targets activities related to film, radio and television, publishing, music, entertainment, advertising, fashion, design, architecture, multimedia, games, software, art and culture.

11 The ISDA (International Swaps and Derivatives Association, a global trade association representing participants in the derivatives market) serves as a reference rate used in various financial transactions, including interest rate swaps and other derivative instruments.

IBB Ventures incorporates climate and environmental considerations into its formal selection process, ensuring that business models with significant adverse effects on the climate and environment are excluded from funding. To assess compliance with environmental, social and governance (ESG) criteria, IBB Ventures leverages the use of an online assessment ESG performance report provided by an independent external company. This report provides a quantitative summary of the company's adherence to environmental, social and governance standards using predefined assessment criteria and a scoring methodology. Through this comprehensive evaluation, IBB Ventures gains insights into how well the company operates in terms of ESG standards, enabling informed investment decisions aligned with sustainable practices.

Nuventura

Sector(s): Energy technology
Fund: VC Fund Technology II & III
Amount contracted by IBB Ventures (incl. ERDF): EUR 2.9 million
Invested since: 2019
Total value of the investment: EUR 32 million

nuventura

Nuventura, founded in 2017, is a Berlin-based R&D company specialising in the development of medium voltage gas insulated switchgear (GIS). Their ground-breaking technology replaces SF6, the most potent greenhouse gas and widely used insulating medium in traditional GIS, with dry air. SF6 emissions from the energy industry alone are equivalent to the annual CO_2 emissions of approximately 100 million cars. By offering a greenhouse gas-free grid technology, Nuventura contributes significantly to the energy transition.

Nuventura's business model focuses on enabling switchgear manufacturers to expand their product portfolios. Manufacturers can either license Nuventura's switchgear design or incorporate key components from Nuventura into their own offerings. This approach facilitates the transition to an SF6-free switchgear industry, which is expected to be mandated by regulators in the EU, USA, and other regions in the near future.

As VC investments in deep technology and hardware industry start-ups are still relatively niche, the early support from Berlin's VC Fund Technology II played a pivotal role in Nuventura's success. The company raised a total of EUR 32 million, including EUR 2.9 million from IBB Ventures in five investment rounds, with 37% of the funds coming from ERDF resources. This funding injection enabled Nuventura to take crucial steps towards product industrialisation and preparing for expansion into other markets.

The key features of the two Funds are summarised in Table 5 below.

Table 5: Key features of the 'VC Fund Technology' and 'VC Fund Creative Industries'

	VC Fund Technology	VC Fund Creative Industries
Target group	SMEs located in Berlin[12] that meet the following criteria: • Profit-making intentions • High value-added potential • High growth potential (preferably in the early stages of development) • Realistic exit perspective • Innovative activity • Undertaking not in difficulty • Not engaged in restricted sectors	
Investment focus	Technology-oriented companies in ICT, life sciences, industrial technologies	Companies in creative industries: Digital media, E-/M-commerce, music, design, entertainment
Expected number of companies financed	44 companies financed for the first time + follow-on financing for 16 companies already financed by the VC Funds Technology I	37 companies financed for the first time + follow-on financing for 15 companies already financed by the VC Funds Creative Industries I
Volume of investment per company	• Initial investments min. EUR 0.2m; max. EUR 1m • Follow-on investments up to EUR 6m in total	• Initial investments min. EUR 0.2m; max. EUR 1m • Follow-on investments up to EUR 4m in total
End of inclusion period	31 December 2023	

12 The company has its registered office or a permanent establishment in Berlin and the business activity or part of the business activities, which is the subject of the financing, takes place predominantly in Berlin and generates value creation mainly in the region.

4.3 Other types of support to the target group

4.3.1 Quasi-equity and other support provided by IBB Ventures

'Quasi-equity investment' means a type of financing that ranks between equity and debt, having some features of both. It ranks higher than senior debt and lower than common equity in terms of risk. The return for the holder is predominantly based on the profits or losses of the underlying target undertaking, which are unsecured in the event of default. Types of quasi-equity instruments include subordinated loans, venture debt, convertible loans and preferred stocks.

Quasi-equity instruments

Further information about the main types of quasi-equity instruments, their key features and their benefits can be found in the fi-compass factsheet 'Quasi-equity finance for SMEs: A fi-compass model financial instrument'.

Equity and quasi-equity usually coexist as product, as they are provided by the same financial institutions, usually equity and venture capital funds. These intermediaries are different from commercial banks characterised by conservative low credit risk, since they target high risk, high return investments.

During certain circumstances, such as the COVID-19 crisis, IBB Ventures used convertible loans as a form of bridge financing. Convertible loans rank junior to standard loans but senior to equity in case of liquidation. These loans provide a flexible and expedited funding option for companies that prefer not to undergo a valuation process at that particular stage. By deferring the valuation until a subsequent financing round when a new investor joins, lenders of convertible loans are offered a discount (usually between 20% or 30%) based on the future valuation. This discount compensates for the higher risk associated with investing at an earlier stage and provides a mutually beneficial arrangement for both the company and the lender.

In addition to financial support, IBB Ventures takes on an active role as an investor, providing hands-on assistance to portfolio companies the form of management know-how, sector-specific expertise and access to a wide business network.

4.3.2 Synergy with other types of support in the market

In addition to equity instruments, the companies supported by the VC Funds have the opportunity to access other forms of financial assistance. This includes grants or loans that can supplement their investment needs and support specific areas of their business operations. For instance, companies investing in machinery or engaging in research and development activities may be eligible to apply for R&D grants or other relevant grant schemes. The decision-making process for grants is independent of the investment decisions made by the VC Funds.

Other relevant support initiatives available for start-ups in the market are as follows:

- Start-up BONUS: it provides grants for 50% of eligible costs up to 50 000 EUR for innovative businesses. These grants are specifically designed for start-ups that are younger than 12 months and operate in areas such as technology, digital, creativity, or sustainability. These companies are often not ready for Venture Capital funding;
- Pro FIT: it provides grants and loans or their combination for innovative projects in the phases of industrial research, experimental and production development, market preparation and market launch, aiming to enhance their technological capabilities. It is compatible with the VC funding and their focus on scaling the operations and attracting further private investment;
- Berlin-Brandenburg Business Plan Competition (BPW): it is Germany's largest regional business plan competition, provides a free support programme comprising seminars and workshops, individual feedback and networking opportunities. It helps ventures at their pre-seed stage to develop a viable business plan, a requirement for VC funding.

4.4 Visibility and communication

Apart from the usual obligatory activity rules set out in the CPR, a wide range of additional promotional activities have been carried out by IBB Ventures to create awareness and promote the VC Funds.

Press releases play a significant role in announcing and showcasing successful financings and exits, providing the public and stakeholders with valuable insights into the achievements of the supported companies. Additionally, a yearly press conference offers a platform to share key updates, milestones and future plans, further increasing visibility.

To engage with a broader audience, articles are published in relevant publications, spreading awareness about the VC Funds and their impact on the entrepreneurial landscape. Start-up events provide opportunities for networking, knowledge sharing, and interaction with potential investors. Furthermore, monthly office hours are organised, where founders can directly meet with investment managers to seek guidance, ask questions and gain valuable insights before applying for financing.

On their website[13], IBB Ventures provides comprehensive information about their investment philosophy, focus areas and success stories. They highlight the outcome of their collaboration with start-ups, news about their investments, successful exits and other noteworthy milestones.

Through these diverse promotional activities, the VC Funds actively foster a supportive ecosystem, connect with stakeholders and ensure that their impact and opportunities are widely communicated to the relevant target audience.

13 https://www.ibbventures.de/en.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05 Transition to the 2021-2027 programming period

The ex-ante assessment carried out according to Art. 58 (3) of the new CPR[14] substantiated the continued demand and financing gap as well as the high contribution to policy goals of the OP through the strong focus on innovation.

According to recent market tests, the demand for Venture Capital significantly exceeds the current supply: 40 % of the German start-ups surveyed would require Venture Capital financing, but only 15 % actually received funding. Based on the analysis of the registered start-ups with the relevant profile and sector focus, there is evidence that the total pool of companies represents sufficient volume to keep the selection rate of 2% in line with the targeted number of investments.

The continuation of the VC funds is further justified by the longer-term economic effects of the COVID-19 pandemic. As private investors became increasingly reluctant to invest, public investment schemes can play a stabilising role by serving as anchor investors.

The proposed new vehicles include three Funds: the third generation of the 'VC Fund Technology' and 'VC Fund Creative Industry' and the first generation of the 'Impact VC Fund'. The Funds' target volume is EUR 50 million for 'VC Fund Technology', EUR 40 million for 'VC Fund Creative Industry' and EUR 30 million for the new 'Impact VC Fund'. There has been a decrease for the first two in terms of volume, which is justified by the partial overlap with the 'Impact VC Fund', which is expected to absorb part of the target groups covered by the VC Fund Technology and VC Fund Creative Industries in the past.

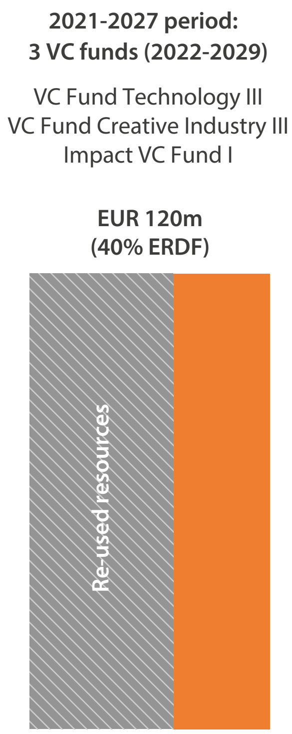
The path of support for companies sometimes goes beyond one programming period. Thanks to the unified funding structure under the same legal entity, it is possible to provide follow-on investments to the companies already invested in through consecutive programming periods. Such follow-up financing for companies that have already been financed by the 'VC Fund Technology' or 'VC Fund Creative Industries' would take place under the respective successor fund, even if the investment would comply with the thematic focus and requirements of the new 'Impact VC Fund'.

The implementation of the follow-up funds also emphasises the importance of utilising ERDF funds in a revolving manner. Most of the planned reflows occur during the divestment phase, when the Investment Committee of the respective VC Fund decides to sell the shares of the company. Reflows generated after the eligibility period can be re-used for investments in a follow-up fund or used in another financial instrument, if the assessment of the market conditions justify the continued need for such investments.

Consequently, in the second generation of the Funds, a significant portion of the funding requirements was met through ERDF reflows from the initial 'VC Fund Berlin' and the first generation of the 'VC Fund Technology'. The national co-financing of the new Funds will exclusively rely on reflows generated from previous investments. In the new programming period, the threshold for ERDF co-financing rate has been lowered to 40%, representing a 10% decrease compared to the previous period. However, the re-use of reflows ensures that the financing support for Berlin start-ups can be sustained, even with a reduced allocation of new ERDF funds.

14 Regulation (EU) 2021/1060.

Figure 5: Composition of the new investment vehicles



Typically, the settlement of the funds occurs after an anticipated holding period of 5-7 years. In cases where there are remaining investments of significance at the designated settlement period, an extension may be enforced, in order to maximise returns. Therefore, the overall lifetime of the fund could be 10-13 years. This and the ability to invest in the same company out of different fund generations allows for more patience than a typical private Venture Capital fund.

5.1 Impact VC Fund for Social Entrepreneurs

The 'Impact VC Fund for Social Entrepreneurs' has been designed by IBB Ventures, recognising the growing importance of impact investing in early-stage venture financing. This fund focuses on start-ups that not only have economic interests but also strive to achieve social or environmental sustainability goals (in line with the Sustainable Development Goals) through their business activities. While the 'VC Technology Fund' and 'VC Fund Creative Industries' have already supported companies contributing to such goals, the 'Impact VC Fund' specifically targets companies that prioritise social or environmental impact as their primary corporate purpose.

The eligibility criteria for impact investing align with the principles of economic sustainability, growth and exit potential similar to the existing funds. The proven approach of *pari passu* financing with private co-investors will continue to be utilised as well. However, in addition to profit-making intentions, the supported companies must demonstrate that they pursue a value added in social or environmental impact that is intentional, measurable, and results in a positive overall balance of impact, considering any potential 'collateral damage' that may occur.

With respect to this social or environmental added value, a measurable contribution to at least one of the 17 Sustainable development goals (SDGs) should be required for the financing of a company by the 'Impact VC Fund'.

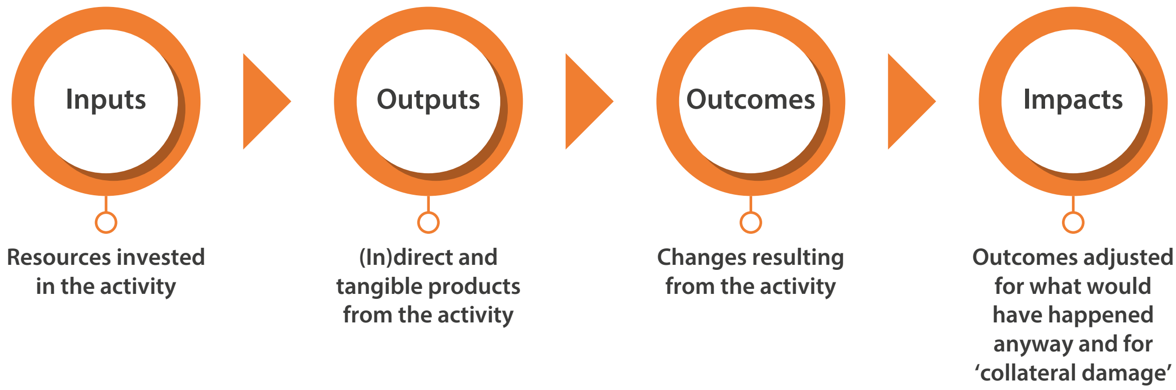
The following SDGs are expected to be the most relevant ones for the Impact VC Fund:

Figure 6: Most relevant SDGs for the Impact VC Fund

The measurement of the impact is based on the Input-Output-Outcome-Impact (IOOI) methodology, following the guidelines developed by the European Investment Fund (EIF)[15] for their impact investment funds (see the box below on the Gamma Model). It involves assessing and quantifying the social and environmental outcomes achieved by the investments. The model identifies key impact metrics relevant to the specific investment objectives, assigns weights to these metrics based on their significance and contribution to the overall impact and calculates a combined impact score.

The Gamma Model - EIF methodology for measuring impact investing

The impact investing value chain consists of four key components: Inputs, Outputs, Outcomes, and Impacts. In order to be considered impact investing, the results of the activity must contribute to a positive effect on society, and this resulting change must be intentional and measurable.



To measure the overall impact-adjusted returns of an investment, the Gamma Model proposes an extension to the Capital Asset Pricing Model (CAPM), which calculates the expected return of an investment based on its risk profile compared to the market portfolio.

By applying the gamma factor, the realised return on an investment can be adjusted to account for its impact, expressing the impact investment performance in a way that captures both financial returns and the social and environmental impact generated by investments. This approach allows for customised impact key performance indicators (KPIs) at the investment level while maintaining comparability of impact performance at the portfolio level.

Source: Grabenwarter et al. (2011). In search of gamma, an unconventional perspective in impact investing

15 Based on Grabenwarter et al. (2011): In search of gamma, an unconventional perspective in impact investing. IESE Business School Working Paper.

Based on that approach, under the Impact VC Fund, 3-5 KPIs are identified per company according to their individual intervention logic. The indicators and target levels are set out prior to the investment decision. The identification of suitable indicators is based on a 'Theory of change'. The 'Theory of change' outlines the linkages between the business model of the start-up and the desired outcomes that lead – often in the long term – to the intended impact. By incorporating these impact metrics into the evaluation process, the methodology provides a comprehensive and comparable assessment of the social and environmental impact generated by the investments.

With a financial size of EUR 30 million, the 'Impact VC Fund' aims to provide support to approximately 27 companies. The fund's resources consist of 60% returns and income from successful participations by IBB Ventures, while the remaining 40% comes from the ERDF funds allocated for the 2021-2027 programming period.

Silber Salon GmbH

Sector(s): Education and Inclusion
Fund: Impact VC Fund
Amount contracted by IBB Ventures (incl. ERDF): EUR 0.3 million
Total value of the investment: EUR 0.9 million

Silber Salon

Silber Salon is a specialised provider of educational and entertainment services tailored to the needs of the elderly. In Germany, there are approximately 22 million people aged 65 and older, accounting for around 21% of the population. At the same time, 16% of this population feel digitally challenged, a growing demand which was further highlighted during the pandemic.

To address the issue, Silber Salon focuses on empowering individuals to navigate the digital landscape at their own pace and thereby promoting social engagement and digital inclusion. Through free courses and interactive materials, members are equipped with the necessary skills to confidently use smartphones, tablets and apps, enabling them to fully participate in the increasingly technology-driven world.

Silber Salon received a pre-seed financing of EUR 0.3 million from the Impact VC Fund in 2022. The company intends to utilise the invested capital to expand its digital product portfolio. The digital products will not only cater to the target group directly but also offer courses and content to established e-commerce providers. This strategic approach enables e-commerce providers to tap into a previously underserved and hard-to-reach customer segment as a new customer base.

06 Achievements

The ERDF VC Funds in Berlin implemented with 2014-2020 ERDF resources have achieved significant results since their inception. A total of 117 companies have been financed, with 61% of them falling under the 'VC Fund Technology' and 39% under the 'VC Fund Creative Industry'. Around one third of the investments were made with respect to companies that had received their initial financing from predecessor funds (follow-on investments). Most of the companies received financing by the ERDF VC funds more than once. Hence, the number of financing contracts is higher than the number of the financed companies: a total of 294 contracts.

The disbursed amount from the Funds has reached an impressive total of EUR 109 million. Specifically, EUR 68 million has been allocated from the 'VC Fund Technology', while the 'VC Fund Creative Industries' has disbursed EUR 41 million. The average investment amount, usually distributed over several financing rounds, per supported entities amounts to approximately EUR 1 million under the 'VC Fund Technology' and a slightly lower EUR 900 000 under the 'VC Fund Creative Industry'.

One of the notable achievements of the VC Funds is the substantial co-investment made by private investors. The total co-investment amounts to an impressive EUR 559 million, resulting in a combined investment of EUR 668 million when considering both the funds' contributions and private investment.

This translates into a leverage of 9 times over the contribution from ERDF (including funding via REACT-EU). This remarkable leverage ratio reflects the Funds' effectiveness in mobilising additional resources and maximising the impact of the public funds.

Sector-wide allocation highlights the Funds' diverse investment portfolio, which covers 19 different sectors. Companies from the internet technology, platform and services sector received the largest share of contribution, with EUR 21 million allocated to 26 companies. Following is the healthcare sector, with EUR 12 million distributed among 15 companies. The logistics sector has also benefitted significantly, receiving EUR 11 million distributed among 7 companies.

Although VC Funds support in general a lower number of final recipients than loan and guarantee instruments, the impact of the two Funds has been significant in terms of job creation and revenue generation thanks to the composition of the investment portfolio, including companies capable of achieving rapid corporate growth. As a result of the investments, the Funds have facilitated the creation of over 3 000 new jobs and contributed to an increase of over EUR 650 million in the turnover.

The main results achieved with respect to the KPIs are summarised in the table below.

Table 6: Results achieved

Indicators	Target	Results
VC Fund Technology		
Number of investments	60	71
Total amount disbursed	EUR 49 million	EUR 68 million
Total amount co-invested by private co-investors	EUR 240 million	EUR 366 million
Total value of the investments	EUR 289 million	EUR 433 million
Turnover growth in supported enterprises	n/a	EUR 440 million
Employment growth in supported enterprises	700 FTE	2 178 FTE
VC Fund Creative Industry		
Number of investments	52	46
Total amount disbursed	EUR 33 million	EUR 41 million
Total amount co-invested by private co-investors	EUR 100 million	EUR 193 million
Total value of the investments	EUR 133 million	EUR 234 million
Turnover growth in supported enterprises	n/a	EUR 218 million
Employment growth in supported enterprises	500 FTE	1 005 FTE

The Female Company

Sector(s): Design and fashion
Fund: VC Creative Industries II
Amount contracted by IBB Ventures (incl. ERDF): EUR 1.25 million
Total value of the investment: EUR 3.25 million

The Female Company, established in 2018, is a FemCare product company based in Berlin that introduced organic period products through a subscription model to the German market. Their range of products, including tampons and pads, are made from certified organic cotton, ensuring they are free from chemicals and pesticides. The company gained attention through their innovative communication campaigns such as their innovative 'Tampon Book' campaign in 2019 which played a role in the political decision to the reduce German value added tax on menstrual products from 19% to 7%.

The Female Company has received approximately EUR 1.25 million in investment from IBB Ventures, out of which EUR 0.75 million were ERDF resources. This funding has been instrumental in supporting the company's growth and the development of new product lines. The support from IBB Ventures, both financially and through their network, has played a crucial role in The Female Company's journey to challenge societal norms and provide sustainable and inclusive FemCare products to women.

IBB Ventures has already delivered 19 successful exits related to companies supported in financing rounds during the 2014-2020 programming period. For all funds, the minimum target over the exit proceeds is to recover at least the fund volume, but potentially realising returns above the initial investment.

07 Lessons learned

7.1 Main success factors

IBB Ventures brings a wealth of experience in equity investments, positioning itself as a key player in Berlin's vibrant and rapidly expanding start-up ecosystem.

Berlin has experienced remarkable growth as a favourable location for start-ups, and IBB Ventures has been at the forefront of contributing to such development by implementing equity financial instruments in the city over the past decades. One of the strengths of IBB Ventures lies in its team, which possesses significant expertise in Venture Capital. Their deep understanding of the industry enables them to make informed investment decisions and provide valuable support to portfolio companies.

Despite the relatively low number of final recipients supported compared to debt instruments in general, the focus on fast growing companies resulted in impressive numbers with regard to the created jobs and turnover. Moreover, IBB Ventures has cultivated strong connections within the ecosystem, fostering relationships with private venture funds, business angels and founders in Berlin. This has allowed IBB Ventures to build a reputable brand and develop a relevant network specifically tailored to the local ecosystem. By leveraging the public investment by IBB Ventures with investments by private co-investors, the total amount of financing for Berlin based start-ups in the 2014-2020 period exceeded EUR 650 million.

By taking a holistic and long-term perspective, IBB Ventures has created a supportive ecosystem that extends beyond the limitations of a single programming period.

Recognising that investments typically take several years to reach an exit, IBB Ventures has developed a strategic approach that spans multiple programming periods and allows for follow-on investments in later stages. Unlike private Venture Capital funds, IBB Ventures has the advantage of implementation mechanisms that enable them to provide ongoing support beyond a single programming period, thanks to the unified funding structure.

This long-term approach is also reflected in IBB Ventures' collaboration with the supported companies. By maintaining a close relationship, acting as a thinking partner with the companies they invest in, IBB Ventures ensures they can adapt their support to evolving needs and provide value throughout the entire journey of the company.

A strategic approach to resource management, including the use of reflows, transitional funding, co-investment partnerships and flexible financing options has played a vital role for continued support.

IBB Ventures has been able to redeploy a significant portion of reflows from previous programming periods, ranging from 60-80% in the 2007-2013 period and 5-30% in the 2014-2020 period. To bridge any resource gaps, IBB Ventures has also leveraged the REACT-EU resources, effectively managing the lack of available funds between the end of the 2014-2020 period and the start of the 2021-2027 period.

Effective resource utilisation is evident at the level of individual investments as well. The implementation of the *pari passu* principle has enabled to bring in additional investors from the market and allowed the expansion of funding. Moreover, the availability of bridge financing options, such as quasi-equity in the form of convertible loans, has served as an intermediary solution between financing rounds or for companies that prefer to postpone the valuation process.

A rigorous selection process helps ensure that limited resources are allocated to the most promising ventures.

Not every start-up is well-suited for VC financing, as VC funds specifically seek out companies with exceptional growth potential and the likelihood of achieving a successful exit within a few years. The nature of VC funding involves inherent risks, including the possibility of failure or limited returns on investments. Therefore, fund managers must exercise great caution and diligence in selecting the companies they choose to support. This process requires in-depth analysis, due diligence, and sometimes engaging in extensive discussions and negotiations with the entrepreneurs. Consequently, building capacity within the fund manager is of utmost importance, including the ability to handle a large number of applications and the expertise to identify the few companies that are most suitable for investment.

7.2 Main challenges

One of the primary obstacles during the implementation phase was to navigate within the complex legal frameworks, including ERDF and State aid regulations. As the VC funds in Berlin were early adopters of these initiatives, there was a lack of established guidelines or precedents to follow. However, through accumulated knowledge and lessons learned, the process of implementing new fund generations has become significantly smoother.

The COVID-19 pandemic presented significant challenges for certain industries such as travel, events and services for restaurants, while simultaneously providing a boost to revenues in other sectors like remote learning, software-as-a-service (SaaS) and online sales. However, having a diverse portfolio consisting of companies from various industries proved to be highly advantageous. This broad range of investments helped mitigate the severe impact of COVID-19 on the overall uptake of the financial instrument.

However, at the level of the individual investments, finding new and independent private co-investors often became more difficult due to the COVID-19 outbreak, as external investors were more reluctant to invest than they would have been in normal circumstances. Consequently, the focus shifted towards existing shareholders who expressed a willingness to provide further investment. However, their involvement did not meet the criteria of independence required for *pari passu* investments. To address this issue and enable investments in such situations, the option of utilising Art. 22 GBER was implemented.

7.3 Outlook

Looking ahead to the 2021-2027 programming period, it is anticipated that the predecessor funds will be fully deployed in existing investments, necessitating follow-on financing for companies initially supported by these funds. Additionally, new emerging start-ups will continue to seek seed financing, highlighting the ongoing demand for investment opportunities.

The track record of the VC Funds demonstrates their effectiveness in leveraging private funds for the companies they support. This success provides a strong indication that the public funding contribution can continue to be multiplied through private co-financing efforts in the future.

With regards to implementation, a smooth transition is expected to the next generation of the established funds, benefitting from the strength of the existing portfolio. Some adaptations will be made to align with new regulations, such as the simplification of the management fees. Additionally, there will be an increased focus on ESG factors reflecting the growing importance of sustainable practices and implemented for example via financing social entrepreneurs and impact investing.

Drawing lessons from the compatible State aid option (in line with Art. 22 of GBER) implemented during the pandemic, mechanisms will be in place to address situations where private investors are not considered independent. This ensures that investments can still be facilitated in such circumstances.

It is worth noting that grant support in combination with the VC funds is not envisaged, despite the wider scope offered by the new CPR, as the pari passu approach has been functioning effectively, making additional incentives unnecessary for now.

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