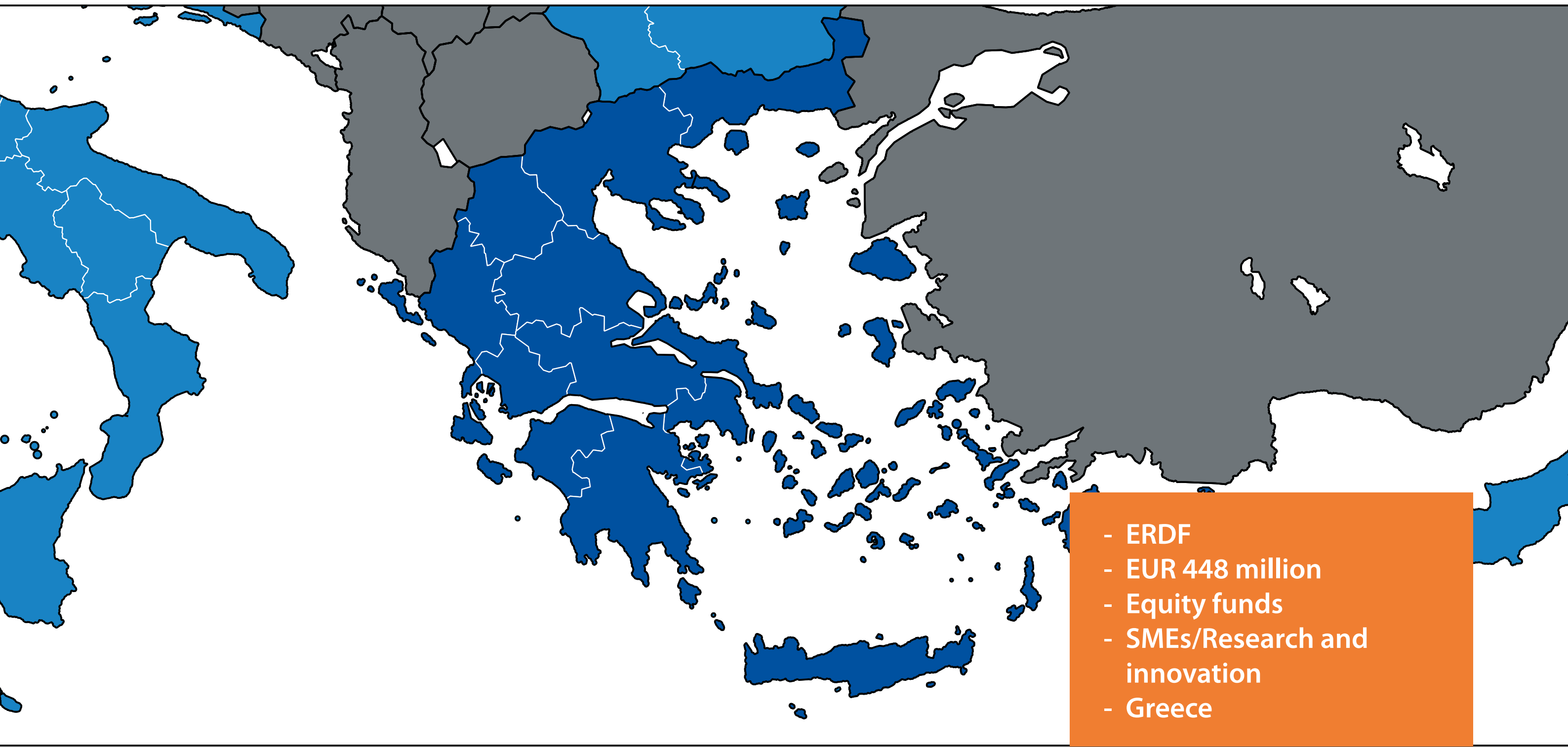


- ERDF
- EUR 448 million
- Equity funds
- SMEs/Research and innovation
- Greece

... accelerating the development of the equity investment ecosystem in Greece...

Equity financing for SMEs in Greece – EquiFund

Case Study

European Commission

European Investment Bank

The EU bank

DISCLAIMER

Abbreviations

Abbreviation	Full name
BSTDB	Black Sea Trade and Development Bank
CPR	Common Provisions Regulation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EFSI	European Fund for Strategic Investments
EIB(G)	European Investment Bank (Group)
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
EU	European Union
GBER	General Block Exemption Regulation
HDB	The Hellenic Development Bank (formerly known as The Hellenic Fund for Entrepreneurship and Development (ETEAN))
IFI	International Financial Institution
IPO	Initial Public Offering
JEREMIE	Joint European Resources for Micro to medium Enterprises
MA	Managing authority
NPBIs	National Promotional Banks and Institutions
NSRF	National Strategic Reference Framework for Greece 2014-2020
OP EPAnEK	Managing Authority of the Operational Programme 'Competitiveness, Entrepreneurship & Innovation'
PE	Private Equity
SMEs	Small and Medium-sized Enterprises
VC	Venture Capital

Table of contents

1. EquiFund – Equity financing for SMEs in Greece

1.1 Executive Summary

EquiFund is an ESIF **fund of funds** in Greece with an **overall volume of EUR 448 million** and **nine equity financial instruments**. Its mission is to provide access to equity financing to companies that are established or have a branch in Greece and to accelerate the development of venture capital (VC) and private equity (PE) in Greece. It is co-financed by the **European Regional Development Fund (ERDF)**, national funds and resources from the European Investment Bank (EIB) and the European Investment Fund (EIF). The fund of funds manager of EquiFund is the EIF, which selected the fund managers to manage the funds within three investment windows: the 'Innovation window', the 'Early Stage window' and the 'Growth Stage window'.

EquiFund's two **cornerstone investors** are the Hellenic Republic acting through the Ministry of Development and Investments Managing Authority of the Operational Programme 'Competitiveness, Entrepreneurship & Innovation' (OP EPAnEK), (**the managing authority**), contributing overall EUR 200 million (EUR 156 million ERDF and EUR 44 million national co-financing), and **the EIF**, contributing EUR 60 million.

The nine fund managers selected by the EIF raised a further EUR 188 million, including the contribution of the EIB of EUR 31 million backed by European Fund for Strategic Investments (EFSI) resources, bringing the total size of the initiative to EUR 448 million. There is a **further leverage factor** at the level of the final recipient as an investment by one of the EquiFund funds attracts other investors that co-invest in the same company in the same financing round, thus increasing further the overall investment amount resulting from the original ERDF contribution. This may generate a total investment of **between EUR 750 million – EUR 1 billion**.

Figure 1: The EquiFund leverage effect

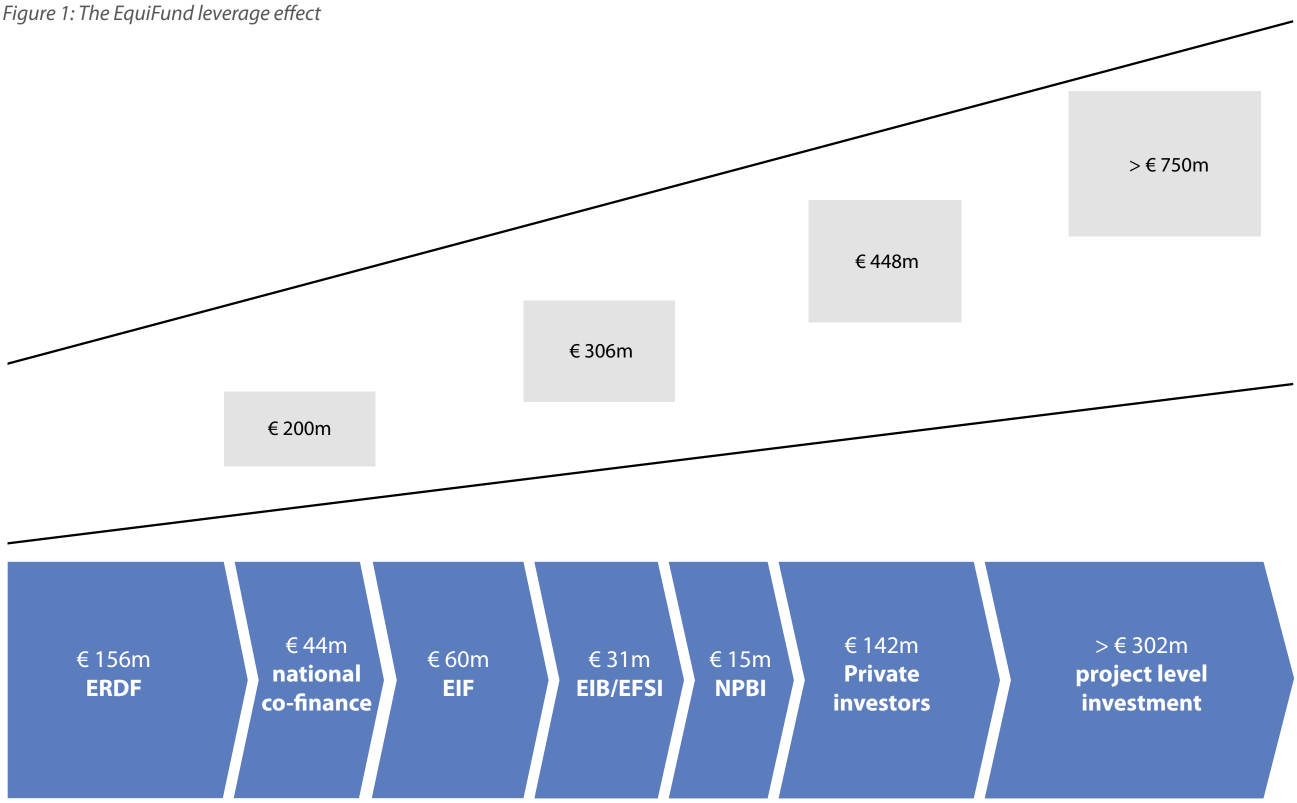


Table 1: Main characteristics of EquiFund

Funding sources

ERDF Operational Programme 'Competitiveness, Entrepreneurship and Innovation for 2014–2020' (OP EPAnEK), EIF, EIB, the Hellenic Development Bank (HDB), more than 150 private investors

Type of financial products

Fund of funds with nine financial instruments offering equity products in three investment windows.

Financial size

EUR 448 million = EUR 156 million ERDF funding + EUR 44 million national co-financing to ERDF + EUR 60 million investment from EIF + EUR 31 million EIB investment under the European Fund for Strategic Investments (EFSI) + EUR 15 million investment from HDB (the NPBI) + more than EUR 142 million private investors funding.

Thematic focus

Strengthening research, technological development and innovation (Thematic Objective 1)
Enhancing the competitiveness of small and medium-sized enterprises (Thematic Objective 3)

Timing

From 2018 to 2023 initial investment period (follow on investments may be made in portfolio companies until 31 December 2027)

Partners involved

Managing authority
Managing Authority of the Operational Programme 'Competitiveness, Entrepreneurship & Innovation' (OP EPAnEK), Ministry of Development and Investments, Hellenic Republic
Members of the High Council
Secretary General, General Secretariat for Public Investments and NSRF, Ministry of Development and Investments
Secretary General for Research and Technology, Ministry of Education, Research and Religious Affairs
Special Secretary, Special Secretariat for ERDF & CF OPs, Ministry of Development and Investments
A representative of the Minister of Development and Investments
A representative of the Managing Authority of OP EPAnEK
International Financial Institutions
EIF (fund of funds manager, investor)
EIB (investor, backed by EFSI)
European Bank for Reconstruction and Development (EBRD) (investor)
Black Sea Trade and Development Bank (BSTDB) (investor)
Other entities
The Hellenic Development Bank (HDB) (investor)
National Bank of Greece (investor)
Eurobank (investor)
Several private investors (investor)
Financial intermediaries (fund managers)
'Innovation window': Big Pi Ventures, Metavallon, Velocity.Partners, Uni.fund
'Early Stage window': Marathon VC, VentureFriends 400W
'Growth window': Eikonos 2, EOS Capital Partners, Synergia Hellenic Fund IV

The ex-ante assessment was carried out in October 2014 and updated in November 2016. This refined the conclusions of the initial study and made more specific recommendations about the type of financial instruments needed to address the market gap in Greece.

Following the entrustment of the EIF as the fund of funds manager and signature of the Funding Agreement in December 2016, the competitive selection process of the financial intermediaries was carried out by the EIF in the following months and the first financial instruments were launched. The year 2018 was the first full year of investment activity for four out of the nine selected fund managers. The year 2019 was marked by investment activity across all windows and funds. By end of 2019, the overall investment activity has led to an aggregate amount of EUR 96 million invested into 89 final recipients.

1.2 Key takeaways about EquiFund

EquiFund is an **initiative of unique breadth and depth**. It addresses VC/PE funding needs across the entire country of Greece, most sectors of the economy and the enterprise life cycle stages from very early in its inception up to its growth and expansion. It was created in a 'VC starving' market (close to 0% of GDP in 2016) and in difficult economic conditions within the country.

Having **ERDF funding at the core of EquiFund helped to mobilise other investors** such as major IFIs (EIF, EIB, EBRD, BSTDB), domestic banks and corporates as well as private investors from Greece and abroad. This can be viewed as an example of how ESIF resources can act as a catalyst in the creation and the development of venture capital ecosystems in the EU.

EquiFund was **set up in a relatively short amount of time**, starting with the signature of the Funding Agreement between the Hellenic Republic, represented by Ministry of Economy and Development and the EIF acting as the fund of funds manager in December 2016. The Call for Expression of Interest to select the VC/PE fund managers was launched directly in December 2016. In the following months, the competitive selection procedure amongst 48 applicants was undertaken and nine funds were selected across the three windows of the initiative.

Responding to COVID-19 challenges

EquiFund portfolio companies were fast to contribute, adapt and pivot to meet the challenges that resulted from the COVID-19 outbreak in 2020.

The start-up **Causaly.ai**[1], which has received investment from Marathon under the Early Stage window, applies machine learning to the world's scientific literature with the aim of transforming the rate of biomedical discovery and progress. In response to the COVID-19 outbreak, the company has provided open access to its data sets for non-commercial research into the disease and published lists of potential compounds to be considered for future research.

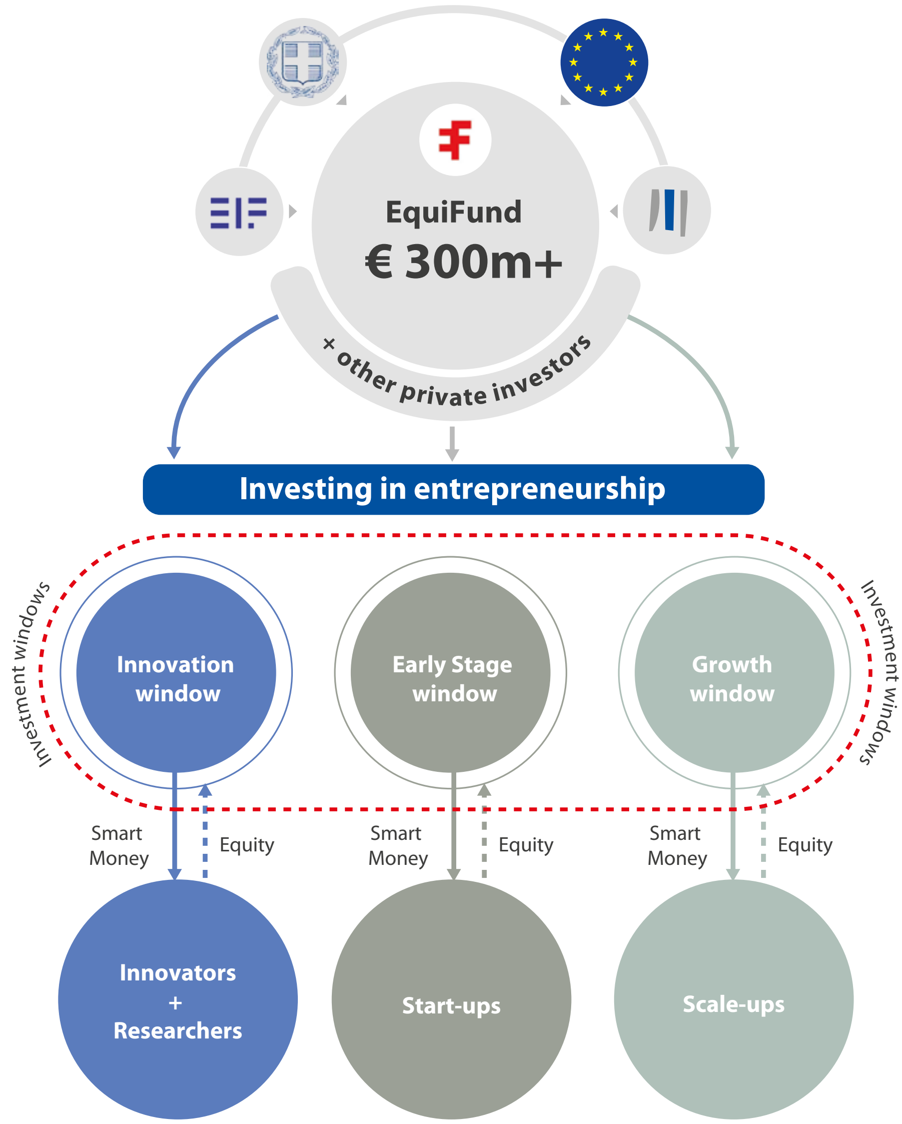
Similarly the company **Purposeful**[2], funded by Metavallon under the Innovation window published a list of potential candidate drugs to be considered for repurposing to treat COVID-19. Bioscience company **Enzyquest**[3], supported by UniFund under the Innovation window, which produces enzymes for molecular biology and biotechnology use, has been active in developing a COVID-19 diagnostic test.

Other portfolio companies that have been able to support the response through their products and services include **Bioemtech** and **Blueground** (featured below) and the software development company, **Novoville**[4], financed by **Venture Friends** and **UniFund** under the Innovation window, which has launched a volunteering app for UK local authorities to fast track volunteers into clinical and non-clinical roles to support the fight against COVID-19.

1 https://www.causaly.com/blog
2 https://metavallon.vc/blog/metavallon-vc-healthtech-startups-vs-covid-19/
3 https://www.kathimerini.gr/1073824/article/epikairothta/ellada/sth-maxh-gia-ellhnika-test-diagnwshs-toy-ioy
4 https://novoville.com/nhsx-selects-solution-by-novoville-and-peopletoo/?ref_tim=1588684506&ref_a=34541669&ref_b=1092015

The relatively quick implementation of EquiFund would not have been possible without the **strong political commitment** of the Greek government to launch the initiative and the exemplary cooperation with ministerial services and departments of the managing authority. The expertise of the fund of funds manager and its presence and market knowledge on-site were also crucial for the swift set up. The market was made aware well in advance of the initiative, thus contributing to the strong interest in the Call for Expression of Interest.

Figure 2: EquiFund overview



Different State aid approaches have been adopted for different financial instruments set up by the fund of funds. The financial instruments under the Innovation and Early Stage windows took advantage of the option to cap the potential returns to the public investment (ERDF and national co-financing) and attract private investors by offering them the returns in excess of the pre-determined cap. These financial instruments must comply with the Risk finance aid framework in Article 21 of the General Block Exemption Regulation (GBER)[5]. Conversely, the Growth window financial instruments are market conforming under which ESIF programme resources are treated on a pari passu basis with other investors with regards to investments and repayments[6].

5 Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty.

6 Communication from the Commission Guidelines on State aid to promote risk finance investments (2014/C 19/04).

2. Design of EquiFund

2.1 Context

Greece has been an EU Member State since 1981 and is located in south-eastern Europe. It is situated in the southern part of the Balkan Peninsula and features an extensive network of islands. In 2018 key sectors' contribution to the country's GDP besides tourism, included wholesale and retail trade, transport, accommodation and food services (25.1%), public administration, defence, education, human health and social work activities (20.3%) and real estate activities (16.3%)[7]. Greece was badly affected by the financial crisis in the period 2009–2016 and experienced years of economic contraction with its GDP per capita in Purchasing Power Standards (PPS) being reported at approximately 68% of the EU28 average in 2018[8]. **In 2016, the year that EquiFund was launched, venture capital activity in Greece was reported to be the lowest amongst all EU Member States**.

VC/PE investment activity in Greece has been reported by Invest Europe, the European Private Equity & Venture Capital Association[9] to have been at a very low level in the years from 2010 to 2014. In comparison to a broad set of nearly all European countries, Greece has ranked last in terms of aggregate VC/PE investments as a percentage of the GDP. It has consistently ranked last or second to last for VC, growth and buyout activity for the 2010-2014 annual average. Notwithstanding the investment activity undertaken by the JEREMIE funds and perhaps because of its focused character and related budget, Greece has consistently ranked last or second to last of EU countries according to both market and industry statistics.

The managing authority had previous experience of VC/PE financial instruments through the JEREMIE initiative in the 2007-2013 programming period. In order to manage the process to establish financial instruments, it set up a team within the Ministry who commissioned consultancy support to undertake the ex-ante assessment. In order to provide strategic guidance to the process, the managing authority established the High Council made up of representatives from key Ministries and other bodies.

2.2 Ex-ante assessment

The initial ex-ante assessment of financial instruments to support SMEs in Greece was concluded in October 2014. It estimated that the market gap for the financing for SMEs was between EUR 3.1 billion and EUR 3.4 billion. Equity financial instruments were identified as being pivotal for the new programming period to address market deficiencies and the restricted access to similar instruments especially for newly established enterprises.

The ex-ante assessment recommended that equity financial instruments were used to support all stages of a company funding lifecycle, from early stage to venture capital up to private equity actions. It also recommended that the support offered through ESIF financial instruments was extended to mid-caps[10]. Further recommendations included the need to avoid sectoral or territorial restrictions in the deployment of the equity financial instruments and the need to support both investment and working capital. In view of the different financial instruments required to meet the range of needs for equity finance, the ex-ante assessment proposed a fund of funds structure to implement the programme.

7 Source: EU - https://europa.eu/european-union/about-eu/countries/member-countries/greece_en
8 Eurostat 2018 data (https://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00114)
9 EVCA is now called Invest Europe.
10 Companies with a headcount exceeding that of an SME and up to 3,000

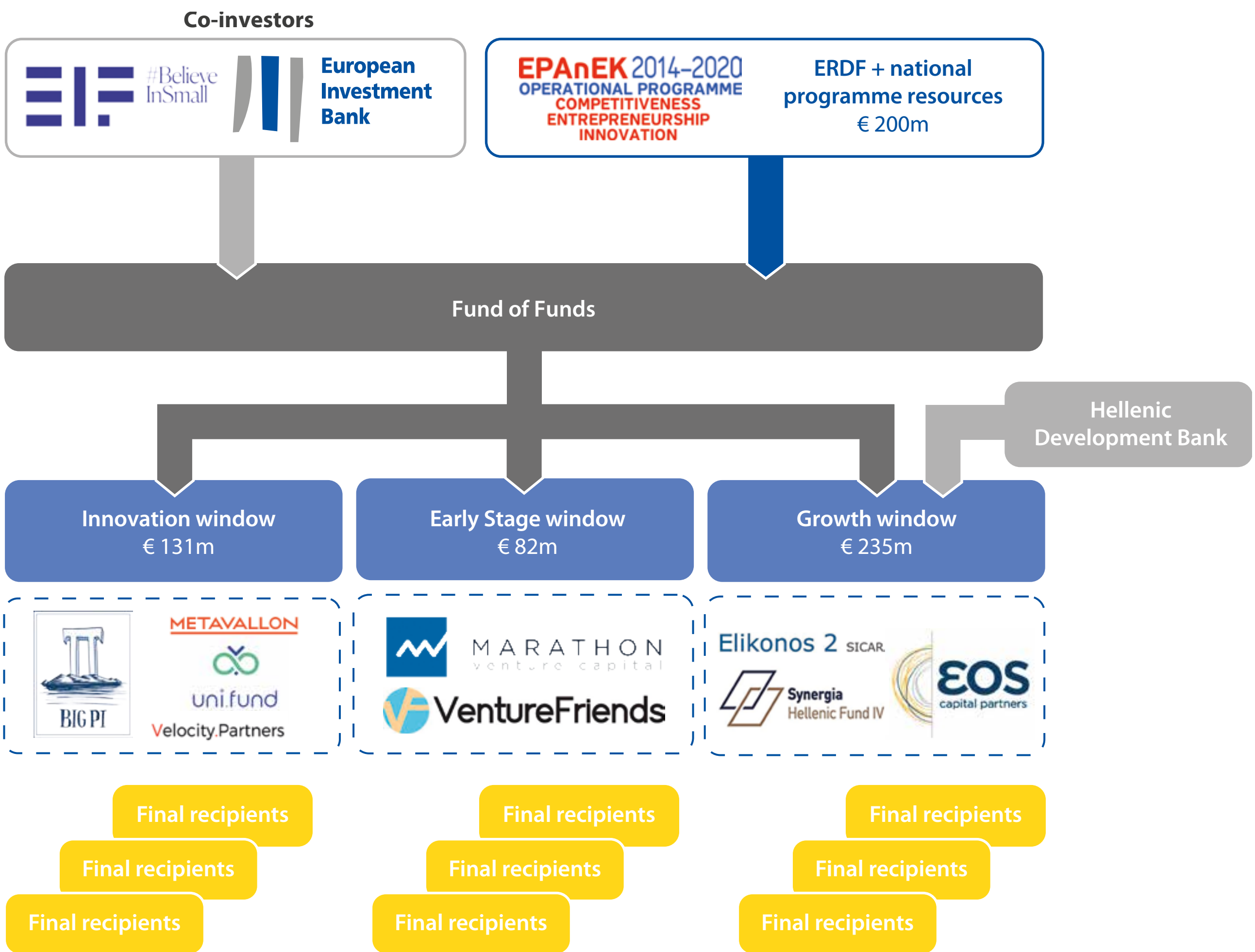
The ex-ante assessment was updated in November 2016. This updated version made more specific recommendations on the types of financial instruments to be implemented. It was recommended that actions targeting at VC/PE operations should be funded with a total of EUR 255 million (EUR 204 million of ERDF contribution) from all sectoral and regional Operational Programmes. It was envisaged that this initial funding could lead to a leveraged effect of EUR 348 million.

2.3 The EquiFund fund of funds and investment windows

Following the update of the ex-ante assessment, the managing authority entrusted the EIF[11] with the **implementation of a fund of funds** according to Article 38(4)(b)(i) CPR[12], the EIF being its sole beneficiary in line with the 'fund of funds' definition of Article 2 (27) CPR. The **Funding Agreement** was signed on 6 December 2016.

The overall design of EquiFund is shown in Figure 3.

Figure 3: Design of EquiFund



11 The Funding Agreement was between the EIF and the Hellenic Republic duly represented by the Ministry of Economy and Development

12 Common Provisions Regulation, Regulation (EU) 1303/2013 of 17 December 2013 of the European Parliament and of the Council.

Following the appointment of the EIF as fund of funds manager the design of the financial instruments continued to develop. An extensive market sounding exercise was undertaken to both raise awareness of the opportunity presented by the EquiFund operation and to receive feedback on the needs of the market. This allowed the design to be fine-tuned. In addition, whilst this stage of the process allowed the detailed design to be developed, some flexibility in relation to the final size of the financial instruments was retained in order to allow the model to be adapted to the specific demand identified during the process to select financial intermediaries.

The structure of EquiFund includes three investment windows: the 'Innovation window', the 'Early Stage window' and the 'Growth' window.

2.3.1 The Innovation window

The funds set up under the Innovation window provide investment to eligible companies in the range EUR 30 000 – EUR 5 million, including follow-on investments. It is targeted at researchers and innovators, who are still at the 'idea and research' stage. Investment partners offer financial expertise and backing to get an idea off the ground by funding the development of prototypes for production or launch of version 1.0 of a new product. It targets sectors including deeptech, fintech, clean-tech, robotics, cyber security and energy.

The Innovation window supports funds that feature the following compartments:

- **Technology Transfer** aiming to commercialise the outstanding research and development of Greek universities and research centres; and
- **Acceleration**, helping to get ideas and initiatives already cultivated in incubator spaces, co-working spaces or accelerators, off the ground.

2.3.2 The Early Stage window

Under this window, financial intermediaries will typically invest between EUR 400 000 – EUR 5 million (including follow-on investments). Targeting the Information and Communications Technology (ICT) sector. The funds offer financing with expertise, business know-how and access to networks to help the start-ups fuel sales, increase productivity, as well as build their corporate infrastructure and distribution system.

The early stage venture capital funding provides equity investment, support and guidance to start-ups with high-growth potential, indicatively supporting product development, business strategy, go to market and commercialisation. Businesses active in both the B2B and B2C sectors can be supported.

2.3.3 The Growth window

Typically investing between EUR 2 million – EUR 12 million (including follow-on investments), financial intermediaries under the Growth window invest in 'scale-ups' who have established businesses with strong sales. The Growth window supports enterprises ready to expand and compete at the international level, by providing financing, networking and professional expertise.

All sectors are considered for investment including companies active in tourism, retail, energy efficiency, pharmaceuticals, agri-business, etc.). Growth capital fund managers have expertise to help companies to expand through export, internationalisation and digitalisation.

The 'language' of equity markets and innovation

Some of the key expressions used in the VC/PE sector include:

'B2B'/'B2C' means 'business to business'/'business to consumer' classifying businesses by reference to the type of customer they serve

'Deeptech' refers to new companies that aim to provide technology based on significant scientific advances

'Fintech' is the development of new technology for financial services

'Clean-tech' is the development of new technology with a reduced environmental impact

'IoT' refers to the 'Internet of Things' the connection of everyday objects through ICT

'SaaS' means 'Software as a Service' the development and sale of software licensed and accessed online rather than downloaded and used remotely.

2.4 Selection of financial intermediaries

As the fund of funds manager of EquiFund, the EIF was responsible for the selection of financial intermediaries, which was undertaken through a 'Call for Expression of Interest'. The Call, which covered all three of EquiFund's investment windows, was published on 29 December 2016 and gave interested parties a period for submission of applications of approximately two months.

Quality Assessment Criteria of the Call of Expression of Interest

A Project Relevance, Quality and Coherence

A1. Evaluation of the Fund focus and proposed investment strategy, including viability of Fund's size;
A2. Evaluation of the Fund Manager team profile, stability and ability to implement the financial instrument;
A3. Assessment of operational, financial, technical and investment competences at the relevant level (TT, acceleration, early stage, growth);
A4. Track record of the Fund Manager team;
A5. Capability as members of boards and/or committees of an investment and/or advisory nature;
A6. Evaluation of Applicant's investment processes, including dealflow generation, ability to invest, ability to build companies and add value and exit strategy;
A7. Ability to demonstrate additional activity in comparison to present activity (only applicable to existing teams).

B. Project Maturity

B1. Applicant's own investment in the fund;
B2. Demonstration of ability to source deals in Greece;
B3. Demonstration of ability to raise private financing (where required).

C. Institutional Capacity & Sustainability

C1. Fund Manager long-term viability;
C2. Assessment of the robustness and credibility of the envisaged methodology/procedures for identifying and appraising investees;
C3. Assessment of the investees' advisers / pool of experts' structure to be put in place;
C4. Assessment of legal structures and independence;
C5. Terms and Conditions, including management costs and fees, and incentive structure/profit share calculation methodology proposed;
C6. Assessment of the alignment of interests between the Fund Manager and FoF, and of the measures to mitigate possible conflicts of interest;
C7. Assessment of Reporting Procedures;
C8. Terms and conditions applied in relation to financing provided to investees, including pricing.

Due to the **market awareness activities undertaken in the course of the set-up** of EquiFund, the interest of potential financial intermediaries was strong. In total, **48 applications were submitted** across the three investment windows.

All applications underwent an **eligibility check** which was performed on the basis of the criteria defined in the Call. Those deemed eligible advanced to the next stage of the selection process, the **Quality Assessment**. This was carried out on the basis of the Call's Quality Assessment Criteria and following standard EIF procedures that include a first screening, a second screening and the due diligence. The box on page 11 describes the quality assessment criteria used.

Flexibility was retained in relation to the final design of the financial instruments during the Call procedure. The EIF had gauged the market before the Call was launched. Notwithstanding this, it was deemed necessary to set the allocation of the fund of funds resources on an indicative basis only, in anticipation of the market needs and applicants' interest. By retaining this flexibility the final size of the different financial instruments could be adjusted during the selection procedure, to allow the aggregate resources committed to financial instruments to be varied.

The selection concluded with the EIF Board of Directors approval of nine fund managers appointed to act as financial intermediaries under the three EquiFund investment windows.

2.5 The EquiFund financial intermediaries

The fund managers selected by the fund of funds manager to act as financial intermediaries for the different investment windows are described below.

2.5.1 The Innovation window financial intermediaries

Following conclusion of the Call procedure and subsequent fundraising of the selected fund managers, a total of **EUR 131 million was committed to the funds of this window** to support innovators and researchers. Four fund managers with expertise of working in the technology transfer and accelerator sectors were appointed as financial intermediaries.

BIG PI	**Big Pi Ventures** (with a technology transfer component) focuses on both research-based projects and companies, mostly active in the B2B segment. **Targeted sectors include:** Technology segments such as software, data analytics, machine learning, SaaS but also electronic-based hardware, including robotics, optics, sensors. The fund can also invest in materials science, energy-related technologies and clean technologies (Cleantech).
METAVALLON	**Metavallon** (featuring an acceleration component) is a fund that focuses on pre-seed and seed stage fund companies in Greece and targets technology and intellectual property (IP)-driven start-ups primarily in ICT and engineering products. **Targeted sectors include:** B2B solutions and products in technology, ICT, high tech in verticals such as robotics, microelectronics, artificial intelligence, data and machine learning, cyber security, energy, transportation and fintech.

uni.fund	**Uni.fund** (with a technology transfer component) targets pre-seed and seed investments in the broad technology sector, aiming to leverage the hidden potential that exists in the Greek universities, R&D and the technological space. **Targeted sectors include:** Broad technology sector with focus on ICT, e-business, robotics, maritime, supply chain, IoT, energy informatics, fintech and insurance technology.
Velocity.Partners	**Velocity.Partners** fund is a pre-seed and seed fund that focuses on technology companies in specialist markets where the Greek economy can provide global validation and real traction. **Targeted sectors include:** ICT sector-oriented with a horizontal focus on SaaS, IoT, B2B and a sub-vertical focus on tech entrepreneurs wishing to operate in tourism/travel, fintech, logistics, retail, shipping, maritime and e-health and wellness.

2.5.2 The Early Stage window financial intermediaries

Two fund managers were appointed to manage investments under this window, which targeted start-ups in the ICT sector. A total of **EUR 82 million** was committed to the funds of this window. The fund managers appointed were as follows:

MARATHON venture capital	**Marathon VC** brings together a team that combines investment, entrepreneurial, technical and operational skills in order to help the new generation of ambitious founders build worldclass technology companies. The fund targets SMEs at the seed and Series A stages. **Targeted sectors include:** Generalist ICT with a preference for B2B.
VentureFriends	**VentureFriends 400W** is the continuation of VentureFriends I, a fund with impact and visibility in the Greek and the international start-up eco-system. It brings together a strong and cohesive team able to provide substantial value to ICT SMEs in the seed and Series A stages. **Targeted sectors include:** Marketplaces and SaaS.

2.5.3 The Growth window financial intermediaries

A total of **EUR 235 million** has been committed to the funds of this window which aims to fund the growth and international expansion of more established businesses. Three fund managers were appointed to act as financial intermediaries under this window as follows:

Elikonos 2 SICAR	**Elikonos 2** aspires to provide financing solutions to companies in sectors that offer the strongest growth opportunities within the context of the Greek economy. **Targeted sectors include:** All sectors.
EOS capital partners	**EOS Capital Partners** aims to establish a premier Greek private equity group with a long-term perspective that will support Greek growth companies to achieve a real impact on the Greek economy. **Targeted sectors include:** All sectors with a particular focus on food & beverage, tourism, fintech, retail, energy efficiency and pharmaceuticals.
Synergia Hellenic Fund IV	**Synergia Hellenic Fund IV** targets Greek SMEs in sectors that offer great growth opportunities, while also adding value through active, hands on partnership with investee companies' management. **Targeted sectors include:** All sectors, with a special focus on the food & beverage and agri-business, tourism and hospitality, environment and energy efficiency sectors.

2.6 Timetable for set-up and implementation

The steps taken to set up and implement EquiFund are described in figure 4 and table 2.

Figure 4: Timeline of EquiFund

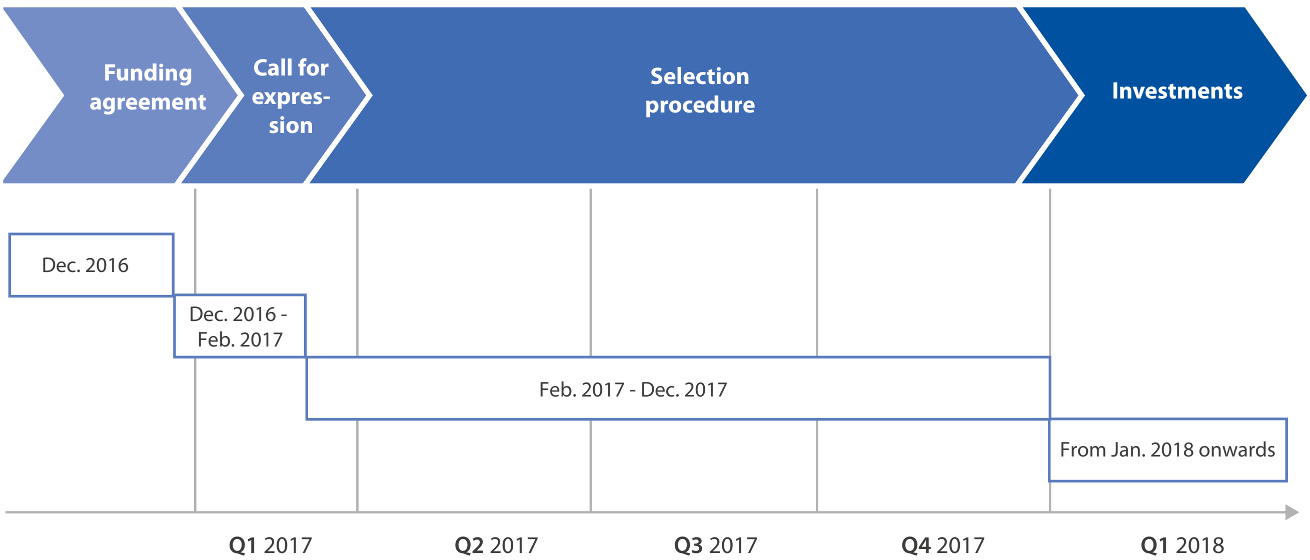


Table 2: Set-up and implementation of EquiFund

Time period	Action taken
May 2014	Partnership Agreement for the 2014 – 2020 programming period signed with the European Commission
October 2014	Ex-ante assessment of the use of financial instruments supporting SMEs in Greece concluded
December 2014	Operational Programme 'Competitiveness, Entrepreneurship and Innovation' approved by the European Commission
November 2016	Update of the ex-ante assessment concluded
December 2016	Funding Agreement signed between the MA and the EIF as the fund of funds manager of EquiFund
December 2016	Terms of the Call for Expression of Interest approved by EquiFund's High Council and Call to select financial intermediaries launched
January – March 2017	Applications from potential financial intermediaries received
March 2017	Eligibility checks of applicants undertaken
March – April 2017	First screening of applicants undertaken
April – June 2017	Second screening of applicants undertaken
July onwards	Due diligence of applicants undertaken
September – December 2017	Approval of the operations by the EIF Board of Directors
December 2017	Launch of four VC/PE funds
March 2018	First investments supported by EquiFund undertaken
April 2018 onwards	Launch of further five VC/PE funds (four of the funds were launched in Q2 2018, the final fund followed in April 2019)

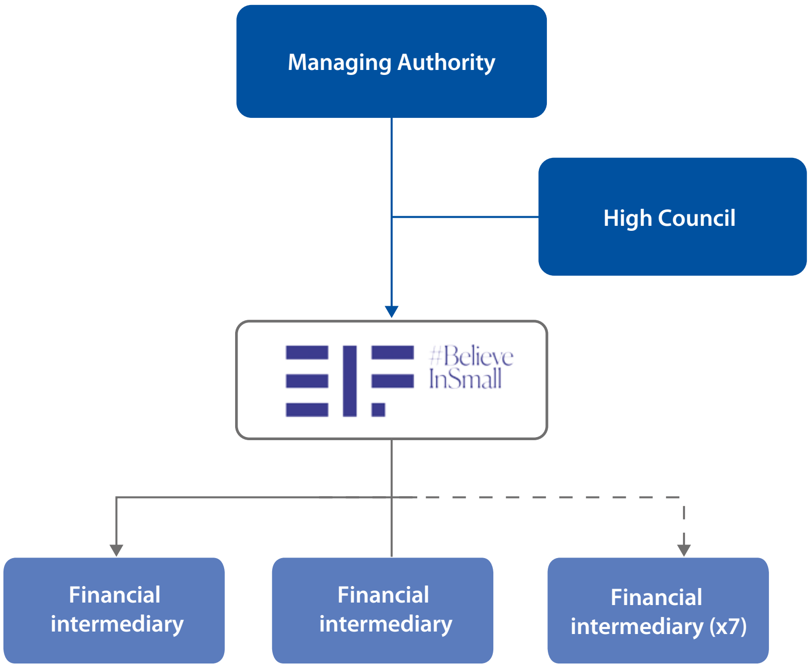
3. Set-up of EquiFund

3.1 Governance structure

The governance structure of EquiFund is shown in Figure 5. The framework for governance of the fund of funds features three key entities that were assigned distinct tasks and responsibilities in the Funding Agreement between the managing authority and the fund of funds manager as follows:

- The **managing authority** is a body established under the Ministry of Development and Investments. The contracting party to the Funding Agreement, the Hellenic Republic, duly represented by the Ministry, committed ERDF programme resources to the fund of funds manager. The managing authority receives reports from the EIF through its participation in the High Council and is responsible for reporting to the European Commission on the financial instruments.
- **The High Council** was established to monitor and supervise the implementation of EquiFund's Investment Strategy and Business Plan. Its composition is regulated by the Funding Agreement under which the managing authority and other national public sector partners may nominate five members (plus alternates) and the EIF may nominate two members (plus alternates); and
- **The EIF** was mandated to manage the fund of funds, including the selection of financial intermediaries. It is responsible for the monitoring of the implementation of the financial instruments and reports to the High Council on the deployment of the initiative.

Figure 5: Governance structure of the EquiFund fund of funds



The managing authority's work during the set-up of EquiFund was focused on the **structure and content of the Funding Agreement** and the **preparation of the Investment Strategy**. Working closely with the EIF the Investment Strategy was developed based on the findings of the ex-ante assessment and taking into account the Operational Programme's targets, thematic objectives and geographical focus.

The next step was the incorporation **of ESIF, State aid and national rules** into the Call for Expression of Interest and the Operational Agreements between EIF and the selected financial intermediaries. The careful design of the Call by EIF, the deep knowledge of managing authority staff and the support of the Central Greek Authorities were essential in this phase.

The managing authority **monitors the implementation** by participating in the High Council and through regular technical meetings with EIF. The project managers, legal officers, programming and publicity units of the managing authority are closely co-operating with the fund of funds management team to ensure compliance with EU and national rules ensuring problems are solved in a timely way, supporting the continued implementation of EquiFund.

Another important task undertaken by the managing authority is **the verification of implementation** through reports, checks and visits, identifying possible risks and training the various partners in NSRF and State aid framework. The verification work also prepares the various actors for further **controls and audits by other bodies**. Close collaboration with the EIF is continuous on these areas.

The **members of EquiFund's High Council** were designated by the Hellenic Republic and include:

- The Secretary General, General Secretariat for Public Investments and NSRF, Ministry of Development and Investments;
- The Secretary General for Research and Technology, Ministry of Education, Research and Religious Affairs;
- The Special Secretary, Special Secretariat for ERDF & CF Funded Sectoral OPs, Ministry of Development and Investments;
- A representative of the Minister of Development and Investments;
- A representative of the Managing Authority of OP EPAnEK.

The High Council is responsible for the monitoring and supervision of the implementation of EquiFund's Investment Strategy and Business Plan on behalf of the managing authority. The High Council considers and approves amendments to the Investment Strategy and Business Plan of the fund of funds as may be proposed by the EIF from time to time.

During the process to select financial intermediaries, the High Council was responsible for the approval of the Call for Expression of Interest developed by the EIF.

The High Council is also responsible for the monitoring and reporting of the fund of funds. It receives semi-annual and annual progress reports as well as quarterly informal updates from the EIF on the status of EquiFund's activity. It provides guidance and instructions to the EIF concerning the information, marketing and publicity strategy of EquiFund.

The EIF were mandated to act as fund of funds manager under the Funding Agreement with the managing authority. Under the agreement, EIF were mandated to implement the fund of funds under the supervision of the High Council. The main tasks of the EIF as fund of funds manager included:

- Pursuing the strategy set out in EquiFund's Investment Strategy and Business Plan;
- Opening and maintenance of the EquiFund's accounts, management of the funds credited to these accounts and execution of banking and financial transactions relating to the operation of EquiFund;
- Identification, evaluation and selection of financial intermediaries;
- Monitoring of the implementation of the Operational Agreements with the selected financial intermediaries;
- Preparation and delivery to the High Council of the semi-annual and annual progress reports as well as quarterly informal updates from the EIF on the status of the EquiFund's activity; and
- Undertaking information, marketing and publicity measures of EquiFund.

Selection of investments by the financial intermediaries

A key feature of the fund of funds' governance framework is that **it plays no role** in the assessment and selection of the projects or companies that are final recipients of EquiFund's funds. These activities are under **the exclusive responsibility** of the nine selected financial intermediaries (fund managers).

3.2 State aid

The financial instruments set up under EquiFund comply with the State aid rules either through:

- Implementation in accordance with the relevant provisions of **Article 21 of General Block Exemption Regulation (GBER)** (Risk finance aid). Under this option, private investors could benefit from beneficial treatment under which returns on the public investment (ERDF and national co-financing) would be capped and any returns in excess of the pre-determined cap would be distributed to the private investors; or
- Ensuring that the financial instrument is **market conforming (no aid)**. In this case, all returns would be distributed to all investors (including ERDF and national co-financing) on the same terms (pari passu) in accordance with their original investments.

During the process to select financial intermediaries, the **candidates participating in the selection were requested to specify** which of the two State aid options they would adopt for their instrument. Candidates were free to choose their preferred option and this formed part of their proposal which was evaluated during the selection process.

Following the selection of the financial intermediaries, the financial instruments set up under the **Innovation and Early Stage windows** have opted to benefit from the provisions of **Article 21 GBER**. By contrast, the financial instruments set up under the **Growth window have all been set up on a market conform basis**.

Blueground

Sector(s): technology/real estate

Intermediary: Venture Friends – the Early Stage window

Blueground is a technology enabled start-up, based in Greece that offers its customers an online booking platform for high quality accommodation in nine cities worldwide.

The EquiFund fund manager Venture Friends had supported the company since its pre-seed investment rounds. EquiFund resources allowed it to participate in a further investment round to support the further growth of the company.

The latest round of equity investment allowed the company to expand into new cities and further enhance its customer service through improvements to its app-based online platform. The investment supported the creation of new high quality employment at the company's Athens office employing up to approximately 220 people.

Although the COVID-19 outbreak has had a major short term impact on the business, Blueground has been able to maintain its core offering. At the same time it has contributed to the response to the crisis through offering its accommodation to healthcare workers at heavily discounted rates.

For further information on the different State aid options adopted for EquiFund, please see table 3.

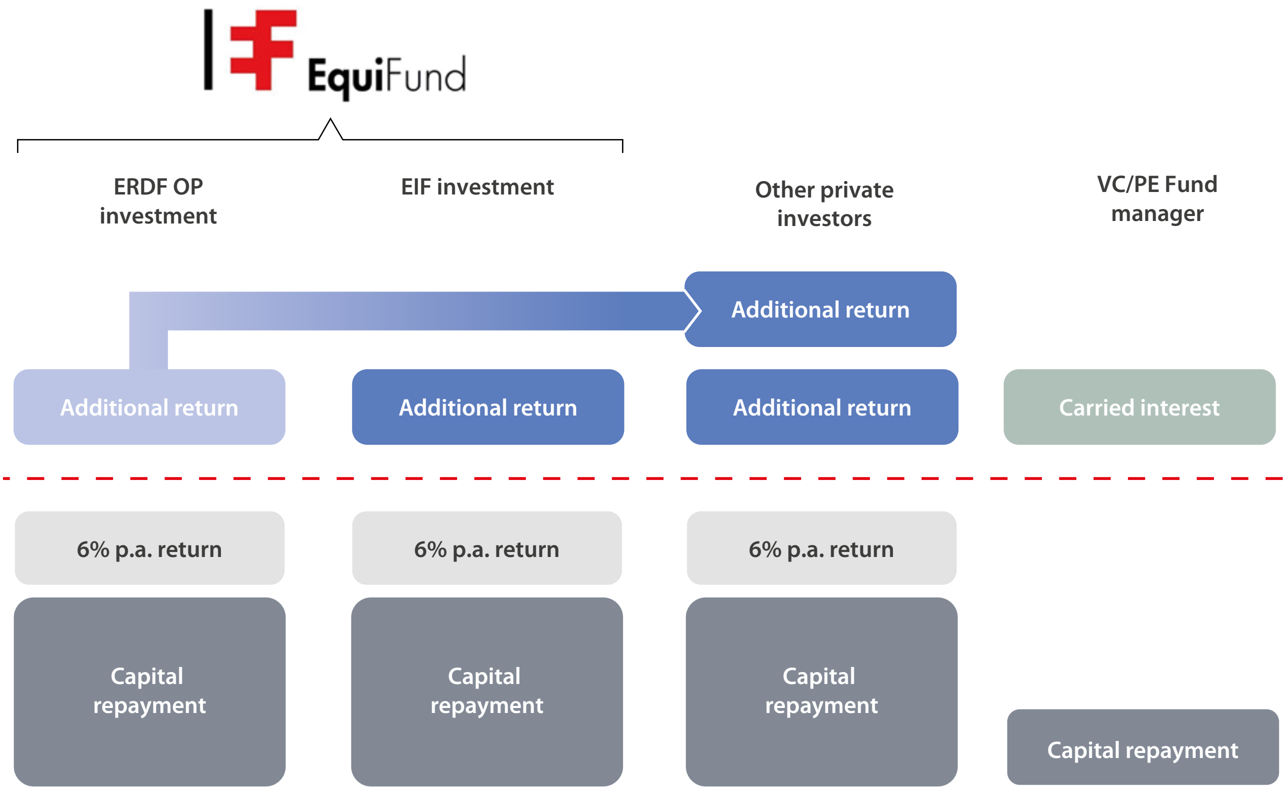
Table 3: EquiFund State aid options for equity investment

	Market conform (no aid)	Article 21 GBER
Eligible investees	Micro, small or medium sized enterprises (SMEs) and in suitably justified cases non-SMEs.	Micro, small or medium sized enterprises (SMEs) that: (a) have not been operating in any market; (b) have been operating in any market for less than 7 years following their first commercial sale; or (c) require an investment (for a new product or geographical market) 50% higher than their average annual turnover in the preceding 5 years.
Private investor contribution	Specific to each window the private investor contribution at the fund level is to be made on a pari passu basis.	A minimum combined private participation as follows: (a) 10% private participation for investments in enterprises prior to their first commercial sale on any market; (b) 40% private participation for investments in enterprises that, have been operating in any market for less than 7 years following their first commercial sale; (c) 60% private participation for investment in enterprises that have operated in any market for 7 years or more.
Management fee basis	Typically paid on the committed capital during the investment period and on the invested capital (acquisition cost of the active portfolio of the fund reduced by the acquisition cost of the fund's investments that have been sold, written-off or written-down) thereafter. Alternatively fixed-fee for the post investment period could be considered.	Base Remuneration: 2.5 % per annum for the first 24 months after the signature of the Funding Agreement, thereafter 1% per annum of programme contributions committed; Performance-based remuneration: 2.5 % per annum of the programme contributions paid.
Distribution cascade	A pari passu distribution cascade for all investors is allowed.	Capped net return on ERDF OP fund of funds' investment at 6% p.a., for the benefit of private investors.
Prohibited types of investees and activities		Including: export-related activities towards third countries or Member States; the use of domestic over imported goods; the processing and marketing of agricultural products; undertakings in difficulty or subject to outstanding recovery order.

3.3 Distribution cascade – preferential returns for private investors

The financial instruments set up under the Innovation and Early Stage windows include in their investment agreements a distribution cascade which sets out how the returns received by the fund manager from its investments will be distributed between the investors. A schematic illustration of how the EquiFund distribution cascade operates is shown at Figure 6.

Figure 6: EquiFund non-pari passu distribution cascade



The cascade works at a portfolio level where returns on the portfolio of investments are returned to investors as follows:

Stage 1 – Capital repayment
The net proceeds are first used to repay the capital of all investors in proportion to their original commitments

Stage 2 – The hurdle rate – initial return of 6% per annum
Once the capital has been repaid, further net proceeds are used to return to investors an initial net return of 6% per annum on capital invested in the fund

Stage 3 – Additional returns
After the hurdle rate commitment has been fulfilled, the remainder of the proceeds are shared between the investors and the fund manager, typically at a ratio of 80/20. Figure 6 shows how the preferential return under the EquiFund Innovation and Early Stage windows works. The entitlement to a share of additional returns that would have been payable to the fund of funds in respect of the investment of ERDF operational programme resources is passed to the private investors, with the exception of the EIF, which retains a neutral position in relation to the additional returns

Stage 4 – Carried interest
The VC/PE fund manager's entitlement to a 20% share of additional returns, once the capital has been repaid and hurdle rate achieved constitutes the 'carried interest'. This is a key feature to incentivise the fund manager to achieve positive outcomes under the financial instrument

4. Implementation of EquiFund

4.1 Eligible projects

The projects eligible for support by EquiFund financial intermediaries are described in the fund of funds's Investment Strategy and Business Plan. These requirements, were set out in the Call for Expression of Interest under the selection process and are passed on to the financial intermediaries under the Funding Agreements. A selection of key eligibility conditions are set out in table 4.[13]

Table 4: Key eligibility conditions for EquiFund's products

Place of business of Eligible investees or development of projects	The Fund shall only invest into businesses that have an establishment or branch in Greece.
Investment period	No longer than 5 years from the first closing of the fund – Initial investments must be made before the end of 2023.
Follow-on investments	Up to end of 2027 provided that the respective CPR conditions are met.
Fund duration	10 years (in addition, two one year extensions being subject to an investor or Advisory Board approval).
Management fee and cost cap	Up to 31 December 2029 and subject to respective Reg. 480 provisions.

4.2 Products to support businesses

4.2.1 Venture Capital finance – 'Smart money'

The EquiFund financial intermediaries provide Venture Capital (VC) support to businesses in Greece. This is made up of a combination of capital investment and know-how, described by EquiFund as 'smart money'. The different components of the EquiFund 'smart money' offering are:

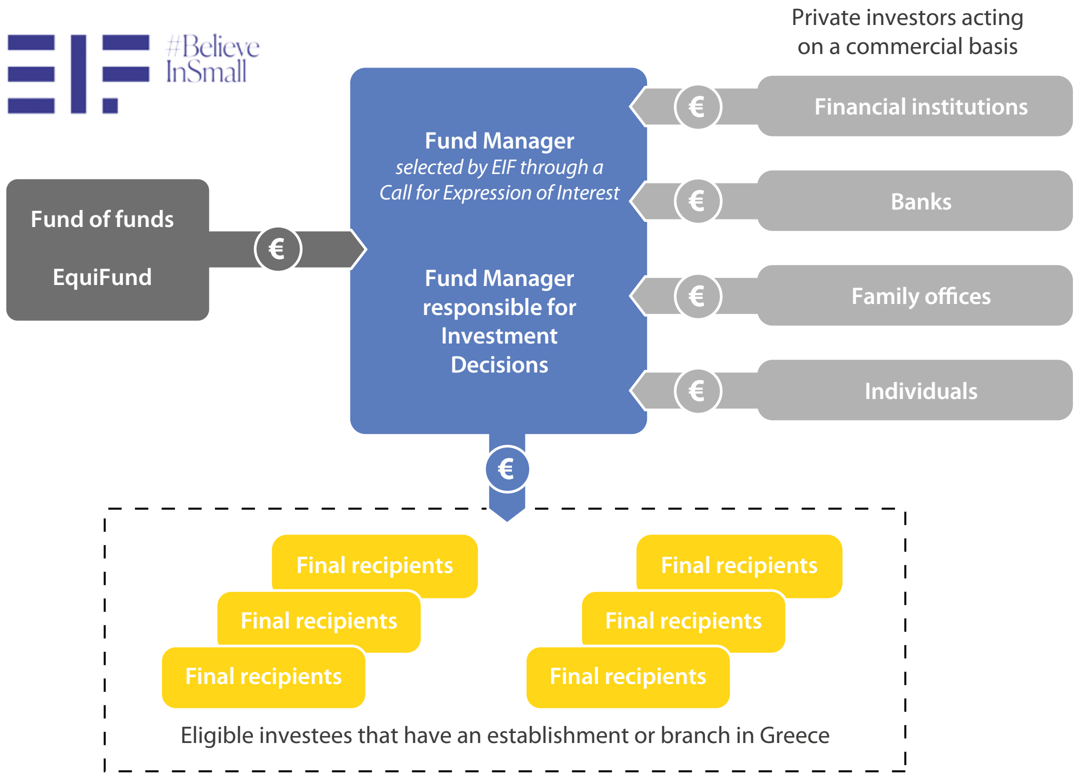
- Capital – an equity (or quasi-equity) investment in the business, contributing financial resources in return to a share (or other interest) in the business;
- Business experience – supporting entrepreneurs and their business partners as they develop their ideas and businesses to access new markets;
- Managerial advice – including participation at Board level contributing to the strategic direction of the business, recruitment of key personnel and supporting the management team's business decisions;
- Technical skills – such as the development of financial projections, business plans and forecasts;
- Introduction to networks – of potential investors, business partners and customers; and
- Follow-up funding – as the business grows it may raise additional equity finance through further fund-raising rounds. The EquiFund financial instrument may participate in further fund raising rounds together with other investors, contributing further resources to the growing company.

13 The tables compile information from the original Call and they are not to be regarded as exhaustive list of the original Call items or contents. The Call was originally published on EIF website and can still be accessed at the following link: https://www.eif.org/what_we_do/resources/esif-fund-of-fund-greece/index.htm

Equity financing can be attractive to growing companies, providing finance 'up-front' to the entrepreneurs to be used to invest in the growth of the business. The resources are contributed free of interest and/or obligation to make repayments, as is the case with loan finance. Typically the financial intermediary will hold the equity interest for between five and seven years, after which they will look to realise a return on their investment through the sale of their interest, for example through an 'Initial Public Offering' (IPO) where the shares of the underlying portfolio company are offered to the public after quotation on a stock exchange, or a trade sale, where the business is acquired by a larger company.

The financial instruments under the three windows are all based on the same model for equity instruments. Under this model the financial intermediary uses the fund of fund's resources (and a small amount of their own resources) as cornerstone investment to attract additional investment from other market orientated investors into the fund. The private investors include institutional and non-institutional investors. The structure of the financial instrument is shown in Figure 7.

Figure 7: The EquiFund equity fund model



The different EquiFund investment windows allow the different VC products to be tailored to the needs of the specific sectors targeted by the financial intermediaries.

4.2.2 Innovation window – investment in research projects and ideas

Under the Innovation window the financial intermediaries target researchers and innovators, who are still at the idea formation and research stage. The fund managers are expected to scout universities and R&D centres throughout the country in order to identify business opportunities and support the entrepreneurial ventures of researchers.

In many cases, final recipients are at the very earliest stage of developing their idea into a business. Typically a financial intermediary will take an equity investment in the entrepreneurial venture that seeks to commercialise the research projects and the activity of aspiring entrepreneurs. The size of the investment depends on a number of parameters such as the capital needs of the company, its development stage and its valuation.

In addition to providing capital to help the innovators to launch their product or idea, the venture capitalist provides the portfolio company with technical and managerial skills, experience, access to new markets and new contacts to help the development of the idea into a business.

The Innovation window financial instruments are implemented in accordance with Article 21 GBER as described in section 3.2. In this case, if the target company is an enterprise prior to its first commercial sale on any market the minimum private investment in the company should be 10% of the financing round. If it has been operating in any market for less than 7 years following their first commercial sale, the minimum private participation should be increased to 40%.

The financial intermediary will typically exit the project in the medium or long-term (estimated to be approximately 7 years). The private investors benefit from a preferential return at the portfolio level. Under the distribution cascade, the aggregate net returns to the Operational Programme are capped at 6% per annum with the balance of the return being retained by the private investors. In practice, the initial returns are shared between the Operational Programme and the private investors pro rata to their commitments to the fund until the cap is reached. Any further returns are then retained by the private investors pro rata to their commitments to the fund.

Bioemtech

Sector(s): Technology/Biomedical imaging

Intermediary: Metavallon – the Innovation window

Biomtech was formed in 2013 by a group of young Greek engineers/entrepreneurs with experience in biomedical imaging. They have developed small bench-top imaging systems that accelerate clinical and pre-clinical drug research by specialist institutions.

The EquiFund financial intermediary Metavallon, set up under the Innovation window has invested in the company which has used the equity to commercialise its products.

The equity investment has enabled Bioemtech to develop its products, recruit additional engineering talent and market its technology in new territories. As a result of the funding, the imaging systems have been installed at a number of different end users, including major universities to enable the technology to be tested.

4.2.3 Early stage window – venture capital support for ICT start-ups

The two financial instruments set up by the fund of funds under the Early Stage window target ICT start-ups who have launched their companies and whose ideas are achieving initial traction. These funds offer financing with expertise, business knowhow and access to networks to help the start-up fuel sales, increase productivity, cut unit costs, as well as build the corporate infrastructure and distribution system.

The fund managers use their established presence in the market place to originate investments. Typically the financial instruments act as 'cornerstone' investor in the first fundraising round of the companies.

The financial intermediary may take a seat on the board of the company, together with providing advice and guidance to support the development and growth of the business. This forms part of the package of support from the financial intermediary to the final recipient.

It is anticipated that the investments will be held for a period of 5-7 years, with a view to securing an exit from the investment through an IPO or trade sale. Similar to the Innovation window, the private investors benefit from a preferential return at the portfolio level. Under the distribution cascade, the aggregate net returns to the Operational Programme are capped at 6% per annum with the balance of the return being retained by the private investors.

4.2.4 The Growth window

The three financial intermediaries under this window seek to invest in SMEs and larger companies already achieving strong sales that have the potential for significant growth in the future. Eligible enterprises include larger enterprises that have a business plan with dominant focus on R&D and/or innovation that are active in one of the research and innovation strategies for smart specialisation (RIS3) sectors.

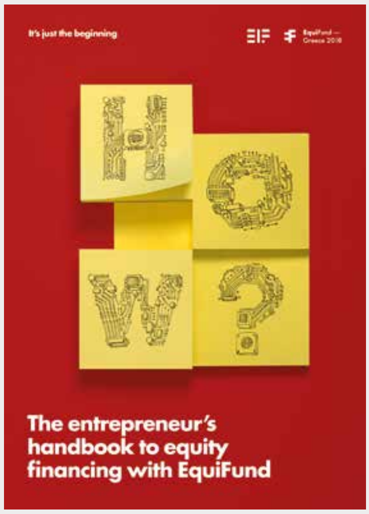
Growth capital fund managers have expertise to help companies fund their expansion through export, digitalisation and many other ways. Approximately one third of the fund of funds' resources are committed to this window and significant additional private participation has been attracted by the financial intermediaries through the fundraising process.

As with standard market practice, the financial intermediaries make an initial investment retaining the option to contribute further capital in subsequent funding rounds. Unlike the other two windows, there is no preferential treatment of the private investors.

In addition to investing in the capital of the company, the financial intermediary will nominate a representative on the company's board and will seek to include provisions in its agreement with the company in order to safeguard the interests of its investors.

4.3 Communication

A communication strategy for EquiFund was developed by the EIF in its role as fund of funds manager. The objective of the initial campaign was to raise awareness of the benefits and characteristics of the financial instrument and to help build relationships of trust and mutual cooperation for the deployment of the initiative and the maximisation of its impact.



The fund of funds published a handbook to promote EquiFund to entrepreneurs and businesses in Greece.

Communication activities undertaken included:

- An **open information session** was held in December 2016 in Athens in advance of the official signature ceremony. The session explained the structure of EquiFund and the selection procedure of the financial intermediaries. The session was organised and delivered by the EIF and targeted key VC/PE professionals in Greece as well as representatives from foreign VC/PE providers.
- An **official signature ceremony** of the Funding Agreement between the Hellenic Republic and the EIF in December 2016 in Athens with presence of the Greek Prime Minister, the European Commissioner for Regional Policy, the EIF Chief Executive, the EIB President, a number of Ministers and other high level officials. During the event, the official logo of EquiFund was presented to the wider public. The signature event was widely covered by media due to the high level of political representation.
- An **EquiFund inauguration event was** a major publicity event held in April 2018 in Athens to launch the financial instruments. The event targeted young and potential entrepreneurs with a view to increase the visibility of the fund of funds, EquiFund and further develop the start-up ecosystem. The event was well attended with nearly 1 000 participants. Moreover, more than 4 000 persons watched the web stream of the event. The event was also widely covered by the media.
- **Promotional videos** subtitled in English and summarising the outcome of the event and the potential for VC/PE investments in Greece were produced and promoted after the event.
- A **one year anniversary event** was held in June 2019 that brought together all EquiFund stakeholders to discuss implementation challenges and present the deployment progress and the way forward.
- Presentation of EquiFund by EIF representatives as well as the fund managers at **events and meetings across Greece as well as abroad**, organised by local business associations, NGOs, national bodies, European organisations, media groups and education institutes and targeting local businesspersons and government agencies, entrepreneurs, researchers and university students.
- A dedicated **EquiFund website** in English with extensive information on the initiative was set up: www.equifund.gr.
- Various **publications and leaflets** about **EquiFund**, the fund managers and other relevant information for final recipients were produced in English. This included a handbook entitled 'The entrepreneur's handbook to equity financing with EquiFund'. Designed to raise awareness of the potential of equity finance to support growing businesses as well as the specific products available under EquiFund's investment windows, the handbook was key to the development of a strong deal-flow of potential investees.

In parallel to the fund of funds' promotional activity, EquiFund was also promoted by the managing authority of the OP EPAnEK. An e-banner was added to the EPAnEK website[14] and social media accounts on Facebook, Twitter, LinkedIn that provided direct access to relevant materials about EquiFund. This allowed best practices of successful start ups that were funded by EquiFund to be selected and showcased through the digital communication channels. In addition, detailed information about the fund of funds was provided to potential investors through the managing authority's Information Desk in the centre of Athens and a number of information events and exhibitions, organised by or in cooperation with the EPAnEK managing authority.

The communication strategy of the fund of funds' manager (in particular the events) was used by the individual financial intermediaries as part of their communication and promotional campaigns. The fund managers have embarked on separate series of promotional actions throughout the country to help build a robust pipeline of investment opportunities. This will be key to the success of the financial instruments reflecting the practice typical in the VC/PE industry where the number of businesses successfully securing investment represent a small fraction of the investment opportunities assessed by the financial intermediaries. Thus, the fund managers are using the promotional measures to build a pipeline as large as possible.

14 www.antagonistikotita.gr

5. Achievements

5.1 Development of the Venture Capital/Private Equity ecosystem in Greece

One of the key strategic objectives of the Greek government in establishing EquiFund was to stimulate the growth of the Venture Capital/Private Equity market in Greece. To do so it was necessary to cultivate the development of an 'ecosystem' of a range different types of organisations that are needed to create a dynamic and thriving sector in the country.

The establishment of EquiFund has resulted in a number of notable early achievements in relation to this strategic objective. The high level of market engagement by the EIF (the fund of funds manager) before and during the Call of Expression of Interest resulted in a strong level of interest with a total of 48 proposals received. Ultimately, nine fund management organisations have been appointed to act as financial intermediaries. All but one of the teams managing EquiFund supported funds are so called 'first time teams'. This has created opportunities for recruiting additional fund management expertise into the market, attracting in some cases specialists to return to Greece, enhancing the capacity within the country.

The financial intermediaries have, in turn attracted significant interest from private investors. Over 150 investors both institutional and non-institutional have been attracted to participate in the different EquiFund financial instruments. In the case of the Innovation and Early Stage windows, the preferential treatment of market oriented investors has secured additional private investment into these 'higher risk' sectors, stimulating increased activity to develop and commercialise innovative products, capitalising on Greece's high performing academic sector. Similarly the use of the ERDF programme resources to attract co-investment from the EIB Group and HDB (the NPBI), has achieved significant scale within the Early Stage and Growth windows to make the financial instruments attractive co-investors for private investors seeking to build a portfolio of investments in start-up and/or scale-up businesses.

The initial period of activity has seen a growth in capacity in the professional sector supporting the VC/PE sector, together with an increased awareness within the business community of the potential for equity financing to support the growth of businesses. The communication campaign of the fund of funds, augmented by activities of the individual fund managers has been critical to the success of this activity. The development of a robust pipeline of potential enterprises seeking investment is a critical challenge in the development of the VC/PE ecosystem. The production of the handbook and other promotional materials, coupled with high profile events and other high quality communication materials has enabled EquiFund to maintain a strong level of engagement with entrepreneurs, SMEs and larger businesses, supporting the financial intermediaries work to develop a robust deal flow.

5.2 Results as at end December 2019

As at 31 December 2019, EquiFund achieved the following results:

- Based on preliminary figures, the investment activity exceeded EUR 96 million to 89 final recipients (in four cases a final recipient has been supported by two funds):
  - EUR 28.6 million to 64 final recipients in the 'Innovation window';
  - EUR 38.2 million to 24 final recipients in the 'Early Stage window'; and
  - EUR 29.3 million to 5 final recipients in the 'Growth window'
- The 89 final recipients were employing 2 356 individuals at the time of initial investment by an EquiFund fund.
- EquiFund investment leveraged additional funding to the final recipients by investors who were attracted by the EquiFund investments and invested directly to the final recipients at the same time as the EquiFund funds. It is estimated that this extra investment doubled the impact of the EquiFund funds. Thus, the overall leverage that the ERDF funding achieved is around 4.5.
- There have been cases of supported companies that engaged into further financing rounds without the support of the EquiFund fund that originally supported them. This leverage is not yet captured.
- Two exits occurred in the first half of 2020. In both cases, following the sale of the business personnel of both companies remained in Greece (in three different regions). The second exit was the biggest deep tech startup exit ever in Greece based on publicly available data and the first cash exit announced under the EquiFund initiative.
- By the end of August 2020, there was the public announcement of a third exit which is expected to be the largest exit for a Greek-founded company with a Greek footprint.
- Numerous investments stemming from academic or R&D institutions have been undertaken. The 'Innovation window' fund managers have established cooperation with most of those institutions.

Intelligencia.ai

Sector(s): Technology/Artificial intelligence

Intermediary: Big Pi Ventures and Velocity Partners (Innovation window)

Intelligencia.ai is a technology/artificial intelligence start-up based in Athens and New York. It applies machine learning to provide data driven insights in clinical care settings. Intelligencia.ai's mission is to help patients get novel therapies in a faster way.

The company has received investment from two EquiFund financial intermediaries under the Innovation window. The equity investments from Big Pi Ventures and Velocity Partners has enabled the company to further develop its product, recruit additional expertise and attract its initial clients, big pharmaceutical companies.

6. Lessons learned

6.1 Main success factors

Strong commitment and cooperation of stakeholders is key for an effective deployment of financial instruments

The implementation of EquiFund would not have been possible without the strong political commitment and effective cooperation of the managing authority and key ministries for the different sectors, the Ministry of Economy (the 'Early Stage window' and the 'Growth window') and the Ministry of Education (the 'Innovation window'). The support of the European Commission's Directorate-General for Regional and Urban Policy (DG REGIO) as well as the EIF was also important in the development of the fund of funds. During the set-up, the stakeholders were in permanent dialogue with each other to achieve consensus on EquiFund's objectives and characteristics, the set-up process, the communication strategy and other matters.

Market centred design and governance help to raise interest from financial intermediaries

EquiFund's Investment Strategy as well as governance structure were elaborated with the actual market needs in mind. EIF's Call for Expression of Interest transposed the objectives of the Investment Strategy and regulatory obligations into instruments with high degree of market compatibility and flexibility, achieving a high interest from the targeted potential financial intermediaries with 48 received applications, out of which nine fund managers were selected. The selection process was transparent and competitive. The evaluation procedure of the applicants in the selection process for financial intermediaries was exactly the same that EIF follows for all its investments. As regards EquiFund's governance, the responsibilities of the High Council and the EIF as the fund of funds manager had been clearly and distinctly segregated in the Funding Agreement. Furthermore, the assessment and selection of the projects and companies as final recipients is under the exclusive responsibility of the selected fund managers which is also in line with standard market practice.

Regulatory framework simplifying the deployment of financial instruments

The development of market-compatible and thus effective financial instruments has been facilitated during the 2014-2020 programming period as the ESIF regulations provided for a framework which was more conducive to successful implementation than the one of the previous programming period. An example are provisions for post-eligibility period expenditure for which a solution was provided in the CPR. Equally important was the introduction of incentives for private investors (namely the capped returns of the public investor) that supported the fundraising activities of the selected fund managers in dire fundraising conditions amidst economic crisis or slow-down, and what is more, for country-specific funds, and with a focus on a country of small economic significance.

6.2 Main challenges

Creating financial instruments supported by ESIF and not diverging too much from the **market practice** for VC and PE poses at times a substantial challenge. Non-market practices resulting from for instance the regulatory framework can drive-off investors as well as act as a hurdle to follow-on investors in companies. Such non-market practices can be understood for ESIF equity financial instruments for example in the context of setting regional allocation targets, tranching of payments, eligibility of payments post eligibility period, limit on follow-ons, the public/private ratio, the applicable management fees and the complex monitoring and reporting requirements posed on fund managers. The EIF as the fund of funds manager succeeded nevertheless to interest a big number private sector VC/PE stakeholders to become financial intermediaries for EquiFund. To successfully cooperate with private sector funds in spite of any regulatory framework boundaries or non-market practices it is crucial to explain clearly all legal requirements to the financial intermediaries, to set up user-friendly and easy to handle processes and to support the financial intermediaries in all their queries and uncertainties along the way.

6.3 Outlook

The **impact of EquiFund on the equity funding market and VC ecosystem in Greece has been transformational**. Nine funds across the three investment windows are operational, a substantial number of investments have been concluded and many other potential target companies are in the fund managers' pipelines. Private investors have joined the funds with additional investments taking them to their target size or even exceeding it.

ERDF resources have been already fully committed. These resources have in Greece **a catalytic effect on the VC ecosystem**, primarily in the 'Innovation window' and 'Early stage window' where they helped the fund managers to attract additional private funding.

EquiFund has the potential to contribute to the development of entrepreneurship in Greece by contributing to the broadening and strengthening of the pipeline, both in terms of the number and quality of the ideas and entrepreneurs, the consolidation of VC/PE stakeholders into a more mature ecosystem and investors gaining more trust in the ecosystem and contributing through further investments.

During 2020, **the COVID-19 outbreak** had an impact on all EquiFund companies shaping an environment of negative global economic outlook and fewer fundraising opportunities while a decrease in revenues was putting a strain on their liquidity. For some of the portfolio companies, **social distancing and online services were factors that favoured their sales**; but for many, it represented a major challenge that forced them to **pivot their product** and **adjust their business model** in order to survive the crisis. The **fund managers** had to initiate contingency plans to **assist the companies' efforts** to ensure financial viability by **preserving liquidity** and by exploring **alternative market opportunities** and **sources of funding**.

Looking ahead, in order to further develop the VC/PE ecosystem in Greece it is essential that the **expertise in the sector** continues to increase, building the pool of fund managers, investors, entrepreneurs and advisers who will in turn create the **pipeline of high growth companies** to benefit from the investment. This will allow **funding to be secured** into the economy. In due course, as the market matures investors will seek **exit routes**, realising their investments successfully further contributing to the development of the market in Greece.

In order to address these tasks, the **ecosystem needs strong and committed stakeholders**: **entrepreneurs, fund managers and investors**:

- A **sufficient expertise and pipeline of entrepreneurs is essential** for the ecosystem. **Entrepreneurial experience and management skills** can be further built with networks of cooperation and mentoring of entrepreneurs with experts, the Greek diaspora and know-how trips. This newly gathered expertise will result in the growth of the pipeline of ideas and projects;
- The importance of the commercialisation of the undertaken research of academia is growing in Greece. A **robust legal framework** related to for instance intellectual property is key to this topic;
- The '**brain drain'**, currently a substantial challenge in Greece, can be hopefully decreased in the future with the help of a thriving and maturing start-up ecosystem. **The ecosystem should produce entrepreneurial success stories** about entrepreneurs successfully pursuing their ventures and, at a later stage, profitable exits of successful companies sold or undergoing an IPO;
- The **fund managers' teams are at the core of the investment process**. These independently working teams need to have the knowledge of the local market, the ability to create a pipeline, the expertise in structuring a VC/PE investment and the willingness to have a hands-on approach throughout the years in helping the entrepreneur and domestic and international networking connections. These pre-requisites are essential to a successful exit or a further round of financing. This growing expertise of the teams will contribute to the development of the VC ecosystem in Greece in the following years.
- In order to **attract investors**, the global and country risks need to be mitigated in Greece. The former may be mitigated as Greece, largely perceived as an emerging market, may provide higher returns amidst challenging financial conditions globally. The latter may be mitigated by targeting companies with a solid exporting activity or with strong local presence but with a global outlook. Presenting this opportunity should be part of the narrative to the investors. It should also be coupled with adequate returns of the EquiFund funds, strong management teams and strong pipeline of deals.

Looking ahead to future programming periods the current experience demonstrates that **ESIF resources can play an important role** to tackle perceived and actual risks amongst investors in relation to the market in Greece. The **catalytic effect** of the ESIF commitment was evident in the current programming period, in particular in relation to the Innovation and Early Stage windows where investors benefit from preferential returns. The **cornerstone investment by EquiFund** into each financial instrument allowed the financial intermediaries to leverage private funding into the individual funds. This was reinforced by the positive perception amongst investors of the selection of the fund managers by the EIF through the Call for Expression of Interest. The open and transparent procedure conducted by the EIF acted as a **'seal of approval'** for the private investors.

An important legacy of EquiFund will be **the robust network of VC/PE fund managers** in the country. Over 50 professionals made up of partners and more junior specialists are working within the nine EquiFund financial instruments. The level of interest in the Call for Expression of Interest demonstrated the scale of potential demand for instruments of this nature in the market.

It should also be recognised that the extensive communications and **market awareness campaigns and events** played an important role in the successful implementation of the financial instruments. The events brought together stakeholders in the same room to share ideas, build relationships and foster expertise. Future actions should follow this model and expand their reach to a global scale.

A final element is the **narrative**. The ecosystem should produce success stories. At this point a success story can involve just an entrepreneur pursuing their venture. At a later stage it is imperative that there are **profitable exits** to demonstrate the potential of equity investment in Greece to deliver outcomes attractive for investors and entrepreneurs in Greece and abroad.

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