

New research sheds light on Central and Eastern Europe's startup innovation and venture scene

March 2018 – How do the local startup scenes look like in Estonia, Poland, Russia, Ukraine — but also in lesser known countries such as Bosnia-Herzegovina, Moldova and Georgia? How much do VCs invest in these countries? Are global and local corporations involved in these emerging innovation ecosystems? Which are the most well-funded startups, and which younger ones deserve attention? Why do so many ICOs come from Central and Eastern Europe (CEE)?

These and many other questions are answered in a research study, “Startup Investment & Innovation in Emerging Europe,” released by East-West Digital News. This study, the first of its kind, contains market data and trend analysis encompassing 24 countries of the region – from the Balkans, to the Baltics, to Russia and neighboring countries.

The report includes exchanges with local industry experts, who frankly discuss their country's strengths and weaknesses in the field of innovation, as well as interviews with major investors, corporate leaders, and government officials. A series of startup and entrepreneur stories provides fascinating insights into the region's fast-growing innovation scene.

Pier Luigi Gilibert, Chief Executive of the European Investment Fund (EIF) – the EU's main vehicle to support venture activity – shares his vision of the region, while Sasha Galitsky, a Silicon-Valley based investor with Russian and Ukrainian origins, underlines the importance of the communist legacy in forming the region's current educational and technological assets.

Among the numerous other participants in the research are representatives of Auchan, Facebook, Intel, Orange, Raiffeisenbank and many others.

In the Russia section, IIDF Director Kirill Varlamov describes the activities and strategy of his early-stage venture fund, which is the largest in Europe, while RVC Deputy Director Mikhail Antonov explains how his organization, a state-backed fund of funds, has managed to attract 11,000 Russian and foreign startups to a corporate accelerator. Putin's Internet Ombudsman Dmitry Marinichev speaks frankly about the risks associated with his country's potential isolation on the international tech scene.

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MEDIA INQUIRIES

For additional information, or to reach any participant in the study, please contact EWDN chief editor Adrien Henni editor@ewdn.com

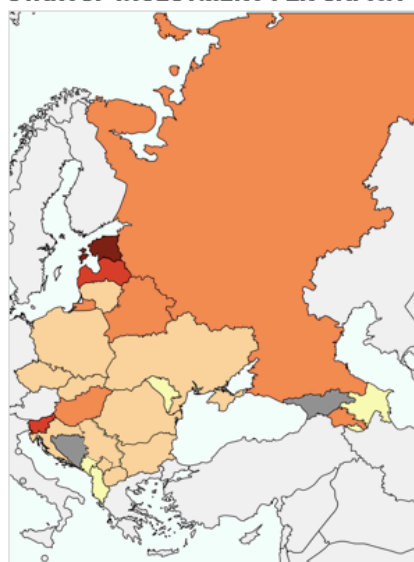
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About the publisher: Founded in 2011, East-West Digital News is a news and research agency covering the Eastern European tech innovation scene. It publishes two news sites (Russia: www.ewdn.com, Ukraine: www.uadn.net) and industry reports (<http://www.ewdn.com/reports>). The company has offices or representatives in Moscow, Kiev, Sarajevo, Paris and Brussels.

KEY FINDINGS / CEE STARTUP ECOSYSTEMS

- The region is very diverse: it comprises some of Europe's most advanced innovation ecosystems (Estonia, Slovenia) and some of the least developed (certain republics of the former Soviet Union and Yugoslavia).
- In absolute terms, Russia is by far the regional leader in technological assets, number of startups and volume of investment. Estonia and Slovenia are ahead in relative terms (per capita).
- Many countries of the region display strong technological and engineering assets along with a high educational level. This is partly a legacy of their communist past. In a range of countries, these assets laid the foundations of internationally-integrated software development capacities; these countries are now switching to a more product- and innovation-oriented model.
- In most countries, the local innovation ecosystem has progressed in spectacular fashion over the past few years. A few countries, however, still lag behind – this is the case, in particular, with Albania, Azerbaijan, Bosnia and Herzegovina, Moldova, Montenegro and some others.
- In most (but not all) countries, governments and public institutions have played an active role in supporting the emergence of local startup and venture activities. In some cases, for example Russia, the local landscape has been structured to a large extent by state-backed organizations and programs. In member states of the European Union, European funds have brought considerable support to the emerging venture activity.
- Brain drain and startup emigration affect many countries of the region, due to the appeal of the US market and, to a lesser extent, Western Europe. Issues for startups emerging in the region include the limited size of the local market, limited access to capital, and in certain cases a negative political or social context. However, the impact of emigration is not completely negative: many startups do keep a foot in their country of origin, and successful entrepreneurs do invest back in their homeland.

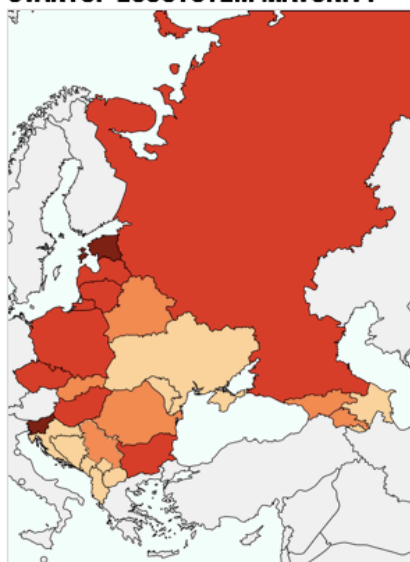
STARTUP INVESTMENT PER CAPITA



■ Less than €1 ■ From €1 to €5
■ From €5 to €10 ■ From €10 to €30
■ Around €50 ■ No data

BASED ON ESTIMATES RELATED TO 2016, INCLUDING INVESTMENT IN STARTUPS WITH CEE ORIGINS BUT ESTABLISHED IN OTHER COUNTRIES

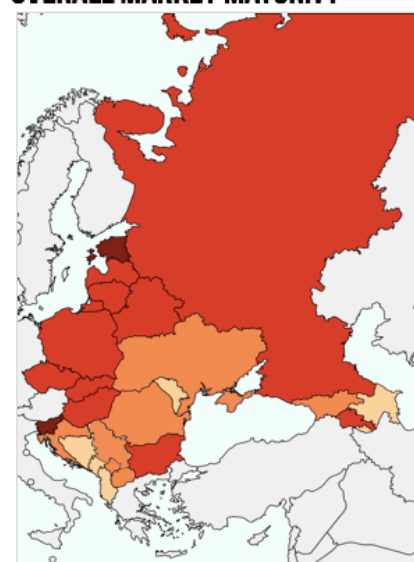
STARTUP ECOSYSTEM MATURITY



■ Nascent startup ecosystems
■ In development
■ Nearing maturation
■ Highly-developed ecosystems

BASED ON EWDN KNOWLEDGE AND EXPERT ASSESSMENTS IN EACH COUNTRY (SEE THE 'LOCAL LANDSCAPES' SECTION IN EWDN CEE STARTUP REPORT)

OVERALL MARKET MATURITY



■ Group 1: Underdeveloped startup markets
■ Group 2: Early-stage startup markets
■ Group 3: Maturing startup markets
■ Group 4: Highly-developed startup markets

THIS RANKING COMBINES STARTUP INVESTMENT PER CAPITA (CHART 1) AND EXPERT ASSESSMENTS OF ECOSYSTEM MATURITY (CHART 2)

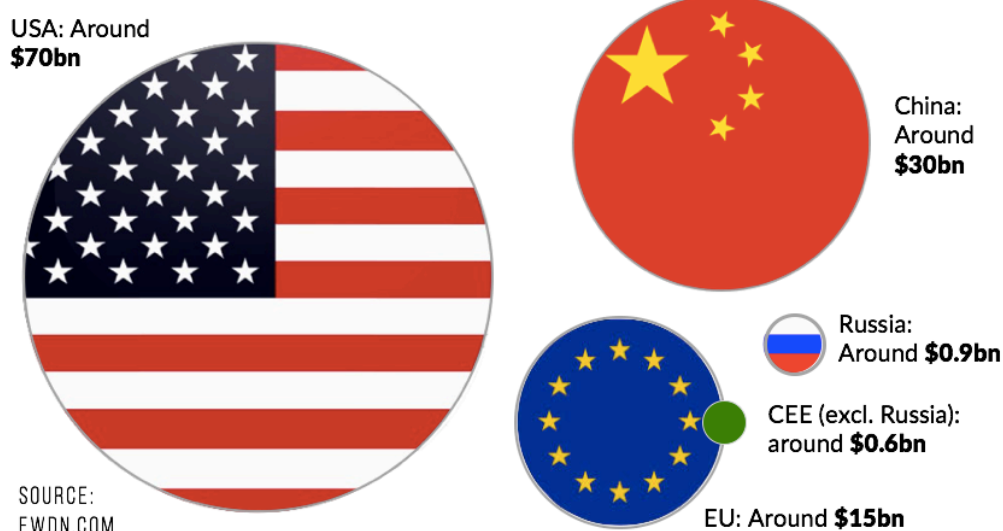
SOURCE: EWDN.COM

KEY FINDINGS / VENTURE ACTIVITY ACROSS THE REGION

A large part of the study – completed with support from CrunchBase, several investment funds and industry associations – is dedicated to venture activity across Central and Eastern Europe. The following key facts and numbers deserve highlighting:

- With less than 1% of the global investment volume, venture activity in the region remains very weak. Russia boasts significant numbers in absolute terms (nearly \$900m in 2016), but its venture activity looks extremely modest when compared with the world's leading markets (\$70bn in the USA, \$30bn in China). The Russian numbers are low, too, if calculated per capita: just \$7 in 2016.
- The only country in the region with high venture activity in relative terms is Estonia, with around \$60 of venture investment per capita (compared with \$185 in the USA and \$33 in France). Investment per capita is significant in Slovenia and Latvia as well. But in certain countries, such as Albania, Azerbaijan, Moldova and Montenegro, local venture activity is almost unnoticeable.
- Only a few international VCs come to Central or Eastern Europe. This is due to the relatively small size of the local markets and, even more often, to a lack of information about these markets and their opportunities. In some cases, moreover, the local political or legal context is not favorable, tending to discourage international investors. However, some foreign investors have enjoyed huge returns on investment after investing in startups from the region.
- Meanwhile, a number of venture funds and wealthy individuals from the region are asserting themselves on the global venture scene. This is typically the case of investors with Russian, Polish and Ukrainian roots. Some of these globalized investors invest even more abroad than in their country of origin.

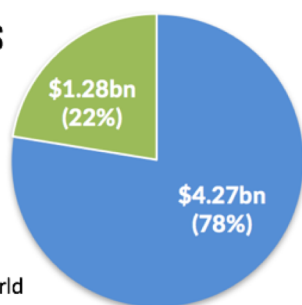
THE CEE VENTURE MARKET COMPARED WITH OTHER REGIONS OF THE WORLD (ORDERS OF MAGNITUDE IN 2016)



RAISED AMOUNTS IN IDENTIFIED ICOs AND PRE-ICOs IN 2017

- CEE
- Rest of the world

SOURCES: EWDN.COM, ICO BENCH



The report also contains data about ICOs, which were collected in partnership with ICObench. In contrast with its modest VC activity, the region boasts an impressive record on the global ICO scene.

Companies with roots in the region account for around 17% of the ICOs and pre-ICOs conducted globally in 2017, and 22% of the funds raised (at least \$1.2bn). Fully 130 ICOs or pre-ICOs came from Russia (out of 237 from the region as a whole) – making this country by far the regional leader. Next comes Estonia (22 identified operations), then Slovenia and Ukraine (22 and 13, respectively).

OTHER REPORT HIGHLIGHTS

- **“The Blockchain Spring of Central & Eastern Europe”**

Eastern Europe and Russia represent the second largest community in the world (after the USA) contributing to the blockchain technology, and the third largest bitcoin mining pool. As part of this landscape, some 15 blockchain projects from CEE entrepreneurs are highlighted in EWDN's report. Among them are:

- DeNet, co-founded by a 19 y.o. Russian tech genius who wants to “make the web decentralized again”
- Russian Miner Coin, a project which raised \$43 million through an ICO last year, aiming to create “a more profitable and eco-friendly cryptocurrency mining system”
- AB-Chain, whose founder Vladimir Dyakov explains why and how blockchain technologies could “bring a revolution to the advertising industry”
- Let It Play, a startup from Perm, Russia, which is developing an audio solution to what it calls the “crisis of visual content” on the Internet.

Direct link to this section: http://ewdn.com/files/cee_tokens.pdf

- **“Artificial Intelligence: The New Powerhouse of Europe?”**

“Whoever leads in AI will rule the world,” the report quotes Vladimir Putin as saying in a meeting with Russian students last year. On a more pragmatic note, a plethora of AI startups from Eastern Europe are busy developing applications in a variety of fields, including:

- Computer vision (e.g. Banuba from Belarus and VisionLabs from Russia)
- Real estate investment (e.g. Russian startup Intro Analysis)
- Content marketing (e.g. PromoRepublic, a Finnish-American startup with Ukrainian roots)
- Marketplaces (e.g. YouDo.com a Russian startup using AI to reshape service consumption patterns)
- CRM (e.g. 2040.io from Poland)
- Trading (the report includes such expert contributions as: “Deep learning for stock price prediction,” by Dmitry Lukovkin, and “Can AI combat behavioral biases in trading?” by Nikolai Markovnik)

Direct link to this section: http://ewdn.com/files/cee_ai.pdf. This section is sponsored by VP Capital, a fund with roots in Eastern Europe that has launched a \$100m program to invest in AI startups globally.

A FEW QUOTES

- *“To a substantial extent, the region’s educational and technological assets are a legacy of their communist past. But in terms of entrepreneurship, the legacy has generally been negative. There are just five entrepreneurs in 1,000 inhabitants in Russia, and up to 20 or exceptionally more in other countries of the region, compared with 71 in the USA.” – **Sasha Galitsky**, co-founder and Managing Partner at Almaz Capital Partners*
- *“The CEE startup scene combines technical excellence with tiny investment volumes (less than 1% of the global venture market). This is not least paradox of the region – and perhaps one of its most problematic issues.” – **Adrien Henni**, chief editor at East-West Digital News*
- *“Central and Eastern Europe is home to many world-renowned startups which built their success with Facebook. These include ROI Hunter, Displate, Apalon or IQ Option, to name just a few.” – **Lukasz Leoniewski**, Manager for Partnerships at Facebook*
- *“Some people here like to speak about ‘Russia’s own path,’ but in IT this is practically meaningless. The Russian IT system is the same as in any country in terms of infrastructure, usage, distribution, payments, etc. IT modernization requires integration to the global market as well as a strongly developed civil society.” – **Dmitry Marinichev**, Presidential Internet Ombudsman, Russia*
- *“In the field of artificial intelligence, Central and Eastern Europe is simultaneously strong and weak. It is a reserve of tech talent, including in the critical fields of mathematics and high-performance computing. Yet it lacks skilled product managers and project founders. Public and private players from the region must bet on education, training and international skill cross-fertilization.” – **Viktor Prokopenya**, Belarusian serial entrepreneur and international AI investor*

To reach these and other players on the CEE tech innovation scene, please contact editor@ewdn.com