France's unseized impact VC opportunity

France's strides in green innovation are undeniable. Approximately 40% of last year's investments (€2.7B across 105 greentech operations) were directed towards climate tech. For perspective, that's €300M more than Germany's investment in impact startups last year.

Temps de lecture : minute

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While this momentum is exciting, it feels like France is not yet receiving the recognition it deserves as a major player in impact tech. This may be because the native French impact investing ecosystem is still relatively immature compared to markets like the Nordics and Germany. Alternatively, it could be that France's rapidly growing reputation as Europe's AI hub is overshadowing other sectors. Nonetheless, France represents a hugely exciting and sizeable market for this asset class and could deliver truly outsized financial and impact returns.

The numbers don't lie

Here's a glimpse into the strength of the French impact ecosystem:

- Impact deal volume: France witnessed a significant 345 impact deals last year. This highlights a large pool of French companies tackling social and environmental challenges.
- Shifting landscape: Although the total number of deals decreased year-over-year (from 429 in 2022), the total amount raised actually increased. This indicates larger rounds for higher-quality impact deals.

- Market share growth: The percentage of deals made by French impact startups grew from 11% to 13.5% of the total deal mix, and the amount they raised grew from 20% to a significant 34%. This signifies a growing trend and investor appetite for impactful companies.
- More prominent tickets for impact: The average funding ticket size for early-stage/seed impact companies has nearly doubled, jumping from €2.35M in 2020 to a substantial €4.58M in 2023. This trend highlights the need for more firepower to support these growing ventures.

The missing piece...

Despite these impressive numbers, France would benefit from a strong presence of dedicated early-stage impact investors. The current shortage creates a hurdle for promising startups seeking initial funding and guidance in navigating the impact investing landscape. Traditionally, France's startup community has thrived under the guidance of local-born VCs. However, the environmental and social challenges that impact companies aim to tackle are vast and severe. Collaboration and diversified global cap tables are essential to achieve global transformative change.

France has arguably the most impact companies of any EU market – they just don't realise it (yet)

From <u>Backmarket</u> (refurbished electronics) to Blablacar (ridesharing), Ecovadis (sustainability ratings) and Ynsect (insect protein), plus health tech players like Doctolib (telemedicine) and Alan (health insurance), France boasts a diverse range of purpose-driven companies with significant valuations and positive environmental or social impact.

The role of impact investors goes beyond

capital

The presence of dedicated impact investors goes beyond simply providing capital. Such investors, whether classified under Article 8 or the more rigorous Article 9 of the Sustainable Finance Disclosure Regulation (SFDR), play a pivotal role in:

- Impact measurement and management: Helping founders qualify, track, and deliver on their impact goals.
- Navigating ESG reporting: Guiding companies through the complexities of environmental, social, and governance (ESG) reporting, which is hard for a corporate, let alone a startup in this space.
- Greenwashing mitigation: Minimising unintentional greenwashing in communications.
- Funding access: Unlocking debt financing, grants, and government funds for growth.

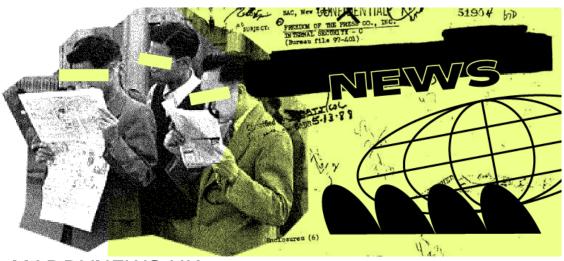
Governmental backing and necessary due diligence

The French government's commitment to sustainability is evident through the €54B France 2030 plan, offering substantial subsidies to deep-tech and impact companies. An essential requirement for these grants is having existing equity on the balance sheet, to ensure that public money is well-spent on genuinely good businesses. This becomes a good self-selector, meaning that only genuinely sustainable businesses - those which can demonstrate value in a private market too - will receive support. So, whilst this support isn't targeted at early-stage companies directly, it establishes a standard for balancing good products alongside solid economics.

The path forward

France's growing impact investing scene needs dedicated early-stage investors. With a range of purpose-driven companies and government support, there's no better chance to jump on this now. These investors offer more than just money; they provide essential guidance in measuring impact, reporting on ESG factors, a wider network of impact enablers, and unrivalled access to follow-on funding. Most of all, the arrival of these specialists will help build out a local ecosystem that help unlock future impact founders looking to scale their big ideas.

Agate Freimane is General Partner at Norrsken VC.



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