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EVALUATING THE IMPACT OF THE UK'S ENTERPRISE INVESTMENT SCHEME (EIS) AND VENTURE CAPITAL TRUSTS (VCT) (SUMMARY)

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SUMMARY

EVALUATING THE IMPACT OF THE UK'S ENTERPRISE INVESTMENT SCHEME (EIS) AND VENTURE CAPITAL TRUSTS (VCT)

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Principal Topic

The UK Government's introduction of the Enterprise Investment Scheme (EIS) and the Venture Capital Trust (VCT) programmes were practical policy responses to a perceived market failure in the provision of sufficient amounts of risk capital for smaller and younger companies with growth potential. Accordingly, the purpose of both of these publicly financed schemes is to encourage informal and private (i.e. non-institutional) investors to provide greater sums of seed, start-up and early growth risk capital finance by altering the nature of the risk-return ratio in favour of equity investors via a tax-based incentive.

Method

Panel data analysis was employed on the population of EIS and VCT recipient firms over the period 1994 to 2006 against a matched sample control group of unsupported firms. This represented in excess of 12,000 companies using the EIS scheme and more than 1,000 companies under the VCT scheme. In addition, some 660 companies had received investments from both schemes.

Results and Implications

Key findings from our econometric analysis indicated that EIS and VCT, in general, were found to be positively correlated with (real) fixed asset formation, (real) sales turnover, and employment. For EIS only, the scheme was associated with lower gearing and higher labour productivity. On balance, investments made under EIS and VCT, (but particularly EIS) tended to be associated with *general capacity building* (i.e. fixed assets and employment) and an expansion in sales. However, there was no evidence of a corresponding increase in profitability. It is also important to note that, whilst we did find evidence of improved client company performance associated with EIS and VCT investments, in most cases the actual quantitative improvements in performance implied by our estimates are very small.

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